



**BULGARIAN  
DEVELOPMENT BANK**

**BULGARIAN DEVELOPMENT BANK GROUP**

**CONSOLIDATED ANNUAL MANAGEMENT REPORT  
INDEPENDENT AUDITORS' REPORT AND  
CONSOLIDATED ANNUAL FINANCIAL STATEMENT**

**31 DECEMBER 2021**

*Unofficial translation from Bulgarian*



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## APPENDIX 1: BDB GROUP CORPORATE GOVERNANCE DECLARATION

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## 1 GENERAL INFORMATION

### Bulgarian Development Bank EAD

The shareholding structure as of 31 December 2021 - the state through the Minister of Economy – 100%.

The shareholding structure at the date of approval of this report: the state through the Minister of Innovation and Growth – 100%.

### Supervisory Board (SB)

SB as of 31 December 2021	SB as of the date of approval of the consolidated annual financial statements
<ul style="list-style-type: none"> <li>- Valentin Lyubomirov Mihov – Chairman of the SB</li> <li>- Vasil Atanasov Shtanov - Deputy – Chairman of the SB</li> <li>- Stamen Stamenov Yanev – Deputy – Chairman of the SB</li> <li>- Mitko Emilov Simeonov – Deputy – Chairman of the SB*</li> <li>- Velina Ilieva Burska – Member of the SB*</li> </ul>	<ul style="list-style-type: none"> <li>- Valentin Lyubomirov Mihov – Chairman of the SB</li> <li>- Vasil Atanasov Shtanov - Deputy – Chairman of the SB</li> <li>- Stamen Stamenov Yanev – Deputy – Chairman of the SB</li> </ul>

\* A decision of the sole owner of the capital of BDB was entered in the Trade Register on 13.01.2022 by which Velina Ilieva Burska and Mitko Emilov Simeonov are dismissed as members of the Supervisory Board of the Bank.

### Management Board (MB)

MB as of 31 December 2021	MB as of the date of approval of the consolidated annual financial statements
<ul style="list-style-type: none"> <li>- Krum Georgiev Georgiev – Chairman of the MB</li> <li>- Vladimir Rashkov Gueorguiev – Member of the MB and Executive Director</li> <li>- Tsanko Rumenov Arabadzhiev - Member of the MB and Executive Director</li> <li>- Jivko Ivanov Todorov – Member of the MB and Executive Director</li> </ul>	<ul style="list-style-type: none"> <li>- Mariana Dimitrova Petkova – Chairman of the MB and Executive Director</li> <li>- Krum Georgiev Georgiev – Member of the MB</li> <li>- Tsanko Rumenov Arabadzhiev - Member of the MB and Executive Director</li> </ul>

### Head office and registered address as of 31 December 2021:

1000 Sofia, Sredets area, 1 Dyakon Ignatij Str.

Registration Number - UIC 121856059

**Joint auditors of Bulgarian Development Bank EAD:**

Deloitte Audit OOD  
103, Al. Stambolijski Blvd.  
1303 Sofia  
Bulgaria  
cebgreceptionteam@deloittece.com

Grant Thornton OOD  
26, Cherni Vrah Blvd.  
1421 Sofia  
Bulgaria  
office@bg.gt.com

Auditor of National Guarantee Fund EAD, BDB Microfinancing EAD (former name Microfinancing Institution Jobs EAD), BDB Leasing EAD, BDB Factoring EAD and Capital Investments Fund AD:  
Deloitte Audit OOD

103, Al. Stambolijski Blvd.  
1303 Sofia  
Bulgaria  
cebgreceptionteam@deloittece.com

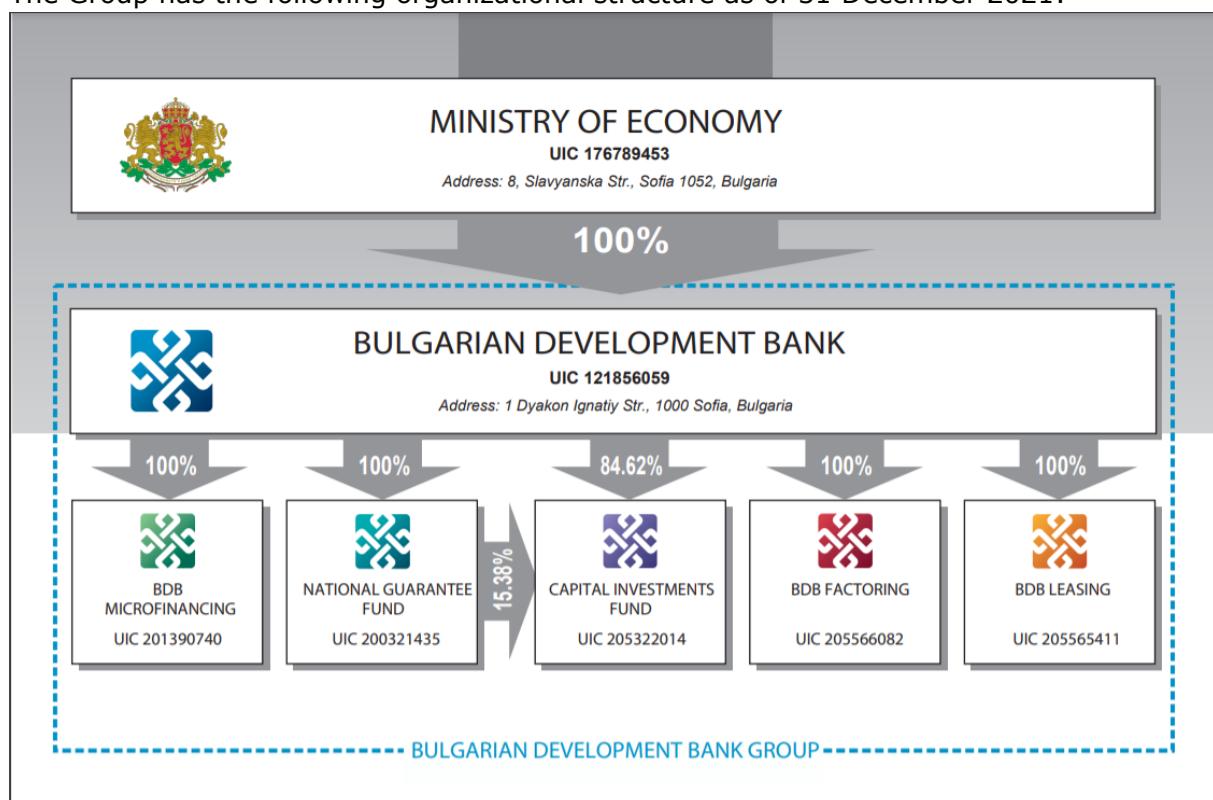
Auditor of Targovski Tsentar Martsa OOD  
Margarita Koshutanska  
AUDIT CORRECT-2010 OOD, ЕИК 201209236, Sofia, 5, Pirotska Str., 3<sup>rd</sup> floor, office 5

## 1 INFORMATION ABOUT THE BDB GROUP

### 1.1. BDB GROUP REVIEW

As of the end of 2021 and as of the date of approval of this report, the Financial Group Bulgarian Development Bank (the „Group”<sup>1</sup> or the „Financial Group”) comprises Bulgarian Development Bank EAD<sup>2</sup> („BDB”, the „Bank”) and its subsidiaries – National Guarantee Fund EAD („NGF”), BDB Microfinancing EAD (former name Microfinancing Institution Jobs EAD<sup>3</sup>) („BDB Microfinancing”), Capital Investments Fund AD (CIF) and the established in 2019 subsidiaries – BDB Leasing EAD (“BDB Leasing”) and BDB Factoring EAD (“BDB Factoring”).

The Group has the following organizational structure as of 31 December 2021:

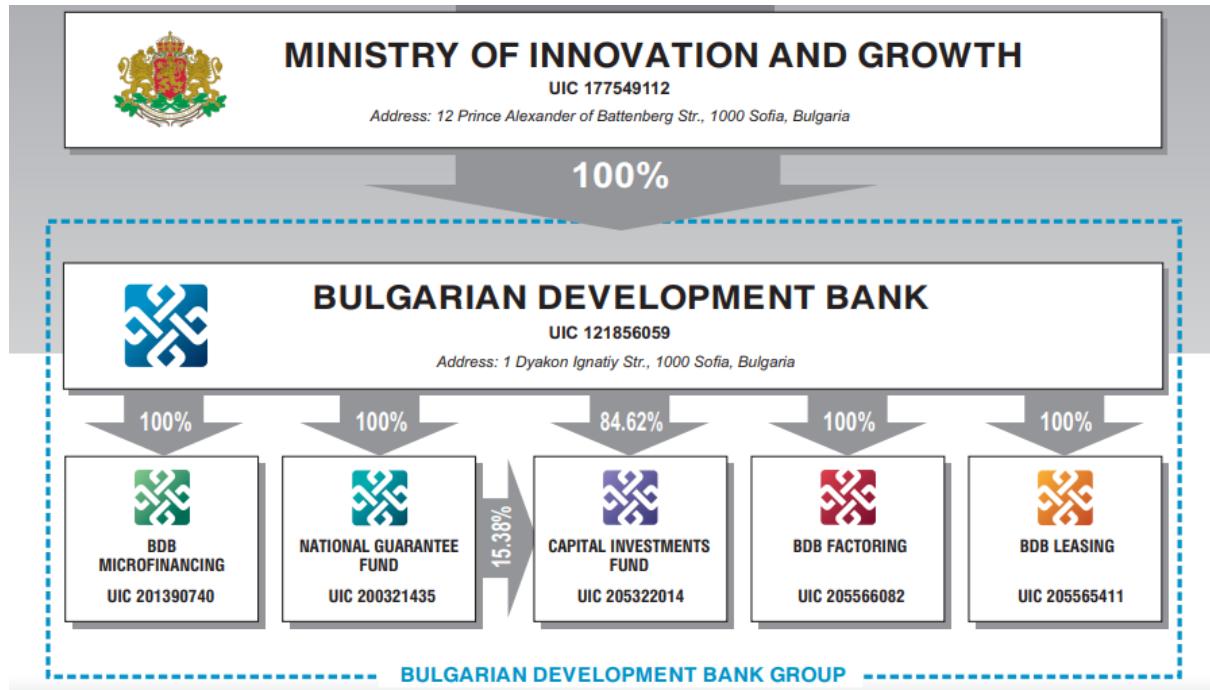


<sup>1</sup>At the end of 2021 the Bank is a sole owner of the capital of TC Maritsa EOOD (TCM), however, the company is not a part of the strategic business model of the Financial Group of BDB.

<sup>2</sup> On 4 June 2021 the Bulgarian Development Bank was registered in the Commercial Register and Register of Non-Profit Entities as a sole owner joint stock company owned by the Bulgarian State. The rights of sole owner are exercised by the Minister of the Economy. With a change in the Bulgarian Development Bank Act, effective as of 18 March 2022, the rights of the state as a sole owner of the capital of the Bank are exercised by the Minister of Innovation and Growth.

<sup>3</sup> The name of the company Microfinancing Institution Jobs EAD was changed to BDB Microfinancing EAD effective as of 12 April 2021.

As of the date of approval of this report the organizational structure of the Group is as follows:



The number of employees of the BDB Group as of 31 December 2021 is 284 (as at 31 December 2020: 281 employees).

At the end of 2021, the BDB Group has no liabilities under existing or new issues of securities.

As of 31 December 2021, has no pending court, administrative or arbitration proceedings related to liabilities or receivables of the BDB Group, amounting to 10 per cent or more of its equity.

The BDB Group complies with the applicable Bulgarian and European environmental protection legislation. The Group conducts an environmental impact analysis of all projects for which such an analysis is required under the applicable legal framework. In the project implementation process, the BDB Group requires the submission of the necessary permits and documents, and strictly monitors the precise implementation of the projects. Subject to stricter environmental requirements set out in the loan agreements with external creditors, the Group requires compliance with these higher standards by its clients and monitors their performance.

A key factor in the realization of the new strategy and business objectives of the BDB Group is human capital. In 2021, the management team focused its efforts on providing a productive and effective working environment by retaining valuable specialists, discovering and attracting new talent, motivating, engaging and developing employees, training to increase qualifications and upgrade their competences. A tendency to ensure work-life balance is promoted in order to maintain commitment and ambition to achieve optimal performance of employees in the Bank.

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There is no specialized unit for research and development activity in the Bank, and no research and development has been carried out during the reporting period.

## **1.2. BULGARIAN DEVELOPMENT BANK EAD**

Bulgarian Development Bank EAD, UIC 121856059, was established on 11 March 1999 as a joint-stock company under the name of Encouragement Bank AD. By means of the Bulgarian Development Bank Act (BDBA), promulgated in the State Gazette, issue 43, 2008, the name was changed and the scope of activity of the Bank was expanded.

On 13 May 2021 the Council of Ministers adopted Decision No 414 to increase the state's shareholding in the capital of Bulgarian Development Bank. This decision approves the increase in the shareholding of the state in the capital of Bulgarian Development Bank EAD by acquiring by donation all shares held by DSK Bank EAD in the capital of Bulgarian Development Bank EAD, namely 8 dematerialized shares, each with a nominal value of BGN 100, a total of BGN 800, representing 0.000055 per cent of the capital of Bulgarian Development Bank EAD was approved.

On 14 May 2021, a contract was concluded for the donation of 8 dematerialized shares between DSK Bank and the Republic of Bulgaria. The transfer of ownership of the shares is registered with the Central Depository of the Republic of Bulgaria.

On 4 June 2021, Bulgarian Development Bank was registered in the Commercial Register and the register of non-profit legal entities as a sole – owned commercial company.

The objectives of Bulgarian Development Bank EAD (BDB) as set out in the Statute are:

1. Improving, stimulating and developing the overall economic, export and technological potential of small and medium-sized enterprises by facilitating their access to finance;
2. Attracting and managing medium- and long-term local and foreign resources necessary for the realization of the economic development of the country;
3. Implementation of schemes and instruments to finance public investment and projects that are a priority for the country's economy;
4. Raising funds and managing projects from international financial and other institutions;
5. Raising funds and providing funding in order to reduce regional imbalances in the country;
6. Financing projects of local companies creating export, innovation, high employment and/or added value;
7. Financing of companies operating in priority sectors of the economy, in accordance with the adopted government economic development policy, as well as such implementing strategic projects and/or projects of national and/or regional importance.

In carrying out its activities, the Bank is guided by the principles of transparency, neutrality, profitability, efficiency, market compatibility and good banking practice. BDB creates conditions for compliance with the requirements for ensuring confidentiality,

prevention and disclosure of conflicts of interest by all its employees. The Bank does not have as its main goal the achievement of maximum profit.

The exposure to a single client or group of related clients other than credit institutions, central governments and central banks follows the requirements and limitations of Regulation 575/2013/EU, taking into account the effect of credit risk mitigation in a procedure set by the Managing Board.

Bulgarian Development Bank EAD is a credit institution that holds license No B25/1999 for carrying out banking activities by the Bulgarian National Bank with the last update of the license under Order No RD22-2272/ 16.11.2009 of the Governor of the BNB.

Bulgarian Development Bank EAD provides investment services and carries out investment activities under Art. 6, para. 2 of the Markets in Financial Instruments Act (MFIA), as well as additional services under Art. 6, para. 3 of MFIA on the basis of the license issued by the Bulgarian National Bank. The Bank does not provide investment services and activities under Art. 6, para. 2, item 8 and 9 of MFIA – organization of a multilateral trading facility and an organized trading facility.

BDB is governed in accordance with Article 5 of BDBA, according to which the Bank has a two-tier management system and as of the date of preparation of this report the rights of the State as a sole owner of the capital of the Bank are exercised by the Minister of the Innovation and Growth. Members of BDB's management bodies are appointed in compliance with BDBA, Credit Institutions Act, Commerce Act, and the Regulations on their implementation, adopted by the Bulgarian National Bank.

As of 31 December 2021, the capital of the Bank amounts to BGN 1,441,773,500 and consists of 14,417,735 ordinary registered shares with voting rights with a nominal value of BGN 100 each. At the date of approval of the report, the entire amount of capital was paid in, with the ownership of the capital distributed as follows: 100% is owned by the Bulgarian state.

With a change in the Bulgarian Development Bank Act, effective as of 18 March 2022, the rights of the state as a sole owner of the capital of the Bank are exercised by the Minister of Innovation and Growth.

Bulgarian Development Bank EAD has not acquired its own shares under Art. 187e of the Commerce Act (CA) in 2021.

There are no shares acquired, owned or transferred by the members of the management bodies during the year. Pursuant to Art. 6, para. 4 of the BDBA, the members of the management and control bodies, procurators and senior management may not hold shares, and no options may be granted to them on BDB securities, and no arrangements may arise in subsequent reporting periods, as a result of which changes in the share held by current shareholders may occur in the future period.

The number of employees of the Bank at the end of 2021 is 231.

Bulgarian Development Bank EAD has no branches.

The head office and registered address of BDB is at 1, Dyakon Ignatij Str., 1000 Sofia City.

In 2021 and until the date of approval of this report, the following changes were made in the Bank's management and structure.

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**1.2.1. SIGNIFICANT CHANGES IN THE MANAGEMENT AND STRUCTURE OF THE BANK IN 2021 AND 2022 UNTIL THE DATE OF APPROVAL OF THE REPORT ON THE ACTIVITIES:**

In 2021 and 2022, the Bank made the following changes in management and structure.

**1.2.1.1. *Changes in the Bank's Management Board***

By Decision of the Supervisory Board under Protocol No 18 of 30 June 2021 Vladimir Rashkov Gueorguiev, Tsanko Rumenov Arabadzhiev and Krum Georgiev Georgiev were elected as new members of BDB's Management Board. This circumstance was entered in the Trade Register on 7 July 2021. By decision of the Management Board under Protocol No 44/30.06.2021, Mr. Vladimir Rashkov Gueorguiev and Mr. Tsanko Rumenov Arabadzhiev are authorised to represent and manage the Bank as Executive Directors. This circumstance was entered in the Commercial Register on 7 July 2021. Mr. Krum Georgiev was elected as chairman of the Management Board.

On 14 July 2021 Nikolay Dimitrov Dimitrov and Panayot Iovov Filipov were deleted from the Trade Register as members of the Management Board.

By decision of the Supervisory Board under Protocol No 28 of 6 June 2022 Mariana Dimitrova Petkova was elected as a member of the Management Board of Bulgarian Development Bank EAD. This circumstance was entered in the Commercial Register on 13 June 2022. By decision of the Supervisory Board under Protocol No 51/06.06.2022 Mrs. Mariana Dimitrova Petkova is authorized to represent and manage the Bank as Executive Director. This circumstance was entered in the Commercial Register on 13 June 2022. Mrs. Mariana Dimitrova Petkova is elected as Chairman of the Management Board.

By decision of the Supervisory Board under Protocol No 30 of 9 June 2022 Vladimir Rashkov Gueorguiev was released as a member of the Management Board of the Bank. Vladimir Rashkov Gueorguiev was deregistered from the Commercial Register as a member of the Management Board on 16 June 2022.

By decision of the Supervisory Board under Protocol No 31 of 9 June 2022 Jivko Ivanov Todorov was released as a member of the Management Board of the Bank effective as of 13 June 2022. The circumstance was entered in the Commercial Register on 23 June 2022.

**1.2.1.2. *Changes in the Bank's Supervisory Board***

By decision of the sole owner of the capital of BDB under a Protocol of 25 June 2021, Valentin Lyubomirov Mihov and Vasil Atanasov Shtanov were elected as members of the Supervisory Board of the Bank. This circumstance was entered in the Commercial Register and the register of non-profit legal entities on 7 July 2021. Mr. Valentin Lyubomirov Mihov was elected as chairman of the Supervisory Board of the Bank.

As of 31 December 2021, the decision of the sole owner of the capital of BDB under protocol of 27 May 2021, by which Velina Ilieva Burska and Mitko Emilov Simeonov are dismissed as members of the Supervisory Board of the Bank, is declared to be entered in the Trade Register. The decision of the sole owner of the capital of BDB by which Velina Ilieva Burska and Mitko Emilov Simeonov are dismissed as members of the Supervisory Board of the Bank is entered in the Trade Register on 13 January 2022.

## **1.2.2. CHANGE IN THE STRUCTURE OF THE BANK**

### *Change in the responsibilities of MB members in 2021 and 2022*

Following the changes in the MB and SB membership in 2021 the organizational structure is as follows: it is grouped into four main sectors, the allocation of the resources among MB members and executive directors being as follows:

#### **Sector № 1 with a structure subordinate to Mr. Krum Georgiev Georgiev, member of MB:**

- Risk Division
- Credit Administration Division
- Non-performing Loans Division
- Classified Information Division
- Security Division
- Personal Data Protection Officer

#### **Sector № 2 with a structure subordinate to Mr. Vladimir Rashkov Gueorguiev, Executive Director and member of MB:**

- Corporate Banking Division
- Investment Banking and Project Finance Division
- Legal Division
- Operations & Customer Service Division
- Secretariat Department

#### **Sector № 3 with a structure subordinate to Mr. Tsanko Rumenov Arabadzhiev, Executive Director and member of MB:**

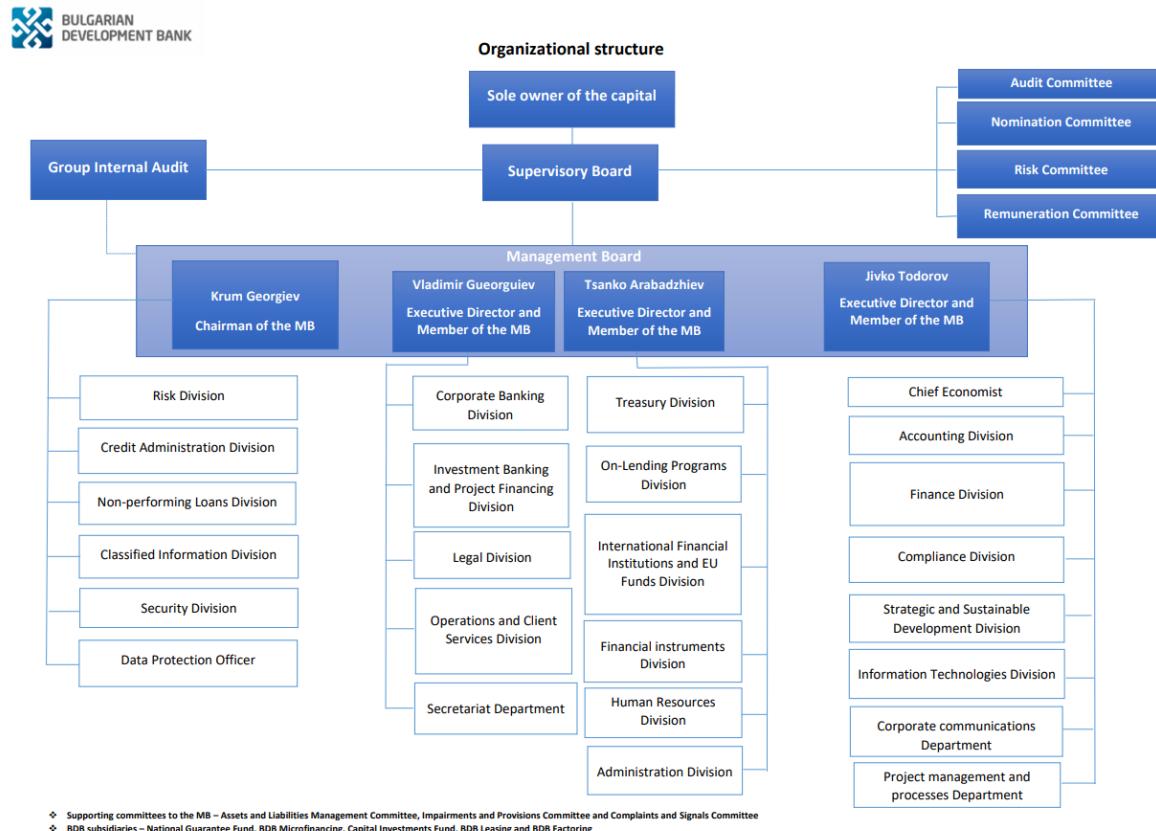
- Treasury Division
- On-Lending Programmes Division
- International financial institutions and EU funds Division
- Financial Instruments Division
- Human Resources Division
- Administrative Division

#### **Sector № 4 with a structure subordinate to Mr. Jivko Ivanov Todorov, Executive Director and member of MB:**

- Chief Economist
- Accounting Division
- Finance Division
- Compliance Division
- Strategic and Sustainable Development Division
- Information Technology Division
- Corporate Communications Division
- Project management and processes Division

"Internal Audit" of the Group - the internal audit function of the Group is independent and in direct communication with the Supervisory Board/Management Board.

The chart of the Bank's last current organizational structure is as follows:



After the changes in MB of BDB as of June 2022 Mrs. Mariana Petkova is responsible for Sector 2 and Sector 4. The organizational structure is subject to update.

In 2021 and 2022, until the approval of this annual consolidated report on the activities, the following changes occurred in the organizational structure of the Bank:

By decision of the Management Board, as of 12 August 2021, the name of the Monitoring and Financial Instruments Division has been changed to Financial Instruments Division in order to focus on the main activity while maintaining the previous functions, and the change is also reflected in the organizational structure of the Bank.

By decision of the Management Board of 11 August 2021 and 24 August 2021, approved by decisions of the Supervisory Board of 25 August 2021, as of 01 September 2021, the following changes were made to the Sector No 4:

- Accounting Division is structured by functions, creating Internal Accounting Department, Business Accounting Department and Tax Methodology Department.
- Strategic Analysis and Development Division is restructured in Strategic and Sustainable Development Division and switches to direct submission to the executive director, resulting in the dropping of ineffective functions by the unit.

By decision of the Management Board of BDB of 05 October 2021, a Call Center unit was established in the structure of the Secretariat Department to assume the flow of incoming telephone inquiries from potential clients, providing information and clarifications on the conditions and provision the products offered by the Bank.

As of 06 November 2021, Corporate Banking Division has established a "Loans under restructuring" unit, which will be responsible for loans that are overdue for more than 30 days but are not payable under court proceedings and are not in insolvency proceedings.

By decision of the Management Board of the BDB of 25 November 2021, the name of Planning, Analysis and Regulation Division changes to Finance Division, which actually corresponds to the activities and responsibilities of the financial function of the Bank performed by the unit.

As of 1 December 2021, the activities related to the preparation of expert opinions on collateral assessments by external valuers and the on-the-spot checks carried out have been transferred from the Credit Administration Division to the Risk Division, and for this purpose Valuers Department within Risk Division has been established.

By decision of the Management Board of BDB of 16 December 2021, the Concessions Department was closed due to the lack of sufficient workload for its existence as a separate structural unit in BDB.

In relation to the introduction of a strategy for more active direct lending to business, in accordance with the change of the Bank's Statute and in order to increase the loan portfolio, the Management Board decided to create Business Development Unit within Corporate Banking Division effective as of 30 September 2021, and Call Center unit within the Secretariat Department as of 06 October 2021. The activity of the new units is focused on offering new attractive banking products, new client programmes supported by the Pan-European Guarantee Fund (EGF), starting a digital platform and providing remotely up-to-date information on specific issues raised, given the lack of a branch network of the Bank.

By decision of the Management Board of BDB of 22 February 2022, approved by decision of the Supervisory Board of 04 March 2022, the name of the Public Relations Department is changed to Corporate Communications Division in order to respond more precisely to the functions and activities of the unit, and the change is also reflected in the organizational structure of the Bank.

By decision of the Management Board of BDB of 15 February 2022, approved by decision of the Supervisory Board of 04 March 2022, the structure, functional responsibilities and name of the Strategic Analysis and Development Division were amended, and the unit changed to Strategic and Sustainable Development Division. The Division has been entrusted with functions related to ESG regulatory framework implementation activities, climate tracking and compliance analysis, the introduction of green, sustainable and climate neutral credit models for SMEs, advisory and consulting assistance to SMEs, evaluation of contributions and monitoring of activity.

### **1.3. NATIONAL GUARANTEE FUND EAD (NGF)**

National Guarantee Fund EAD, UIN 200321435, is a company founded on 12 August 2008 on the basis of the Bulgarian Development Bank Act and was registered at the Commercial Register on 22 August 2008. According to the Credit Institutions Act (CIA), the National Guarantee Fund EAD is a financial institution entered in 2009 into the Register by BNB under Art. 3, Par. 2 of the CIA. In compliance with the Statute of the company the principal activities include:

- Issuing guarantees for supplementing the collateral under loans to small and medium-sized enterprises;
- Offering other products to small and medium-sized enterprises, like: guarantee for participation in a tender; performance guarantee; advance payment guarantee; guarantee for payment of a loan of an exporter, etc.;
- Issuing guarantees for supplementing collateral under loans to small and medium-sized enterprises, carrying out research and development and for implementing these products and scientific developments into the industry;
- Guarantees issued by NGF on its own risk may cover up to 50 per cent of the liability. With the amendments to the BDB Act promulgated in State Gazette No. 102 of 21 December 2012, the guarantees issued by the NGF with regard to guarantee schemes under the Rural Development Program 2007 - 2013 and Operational Program for Development of the Fisheries Sector 2007 - 2013 may cover up to 80 per cent of the liability;
- Other activities, not particularly prohibited by law.

The scope of activity of NGF EAD is stipulated in section X if the Bulgarian Development Bank Act (SG 43/29.04.2008).

In 2021, the Company did not establish branches or subsidiaries, did not acquire interests in any form in other commercial entities and did not implement commercial projects jointly with other enterprises.

The registered capital of the Company as of 31 December 2021 amounted to BGN 80,000,000 divided into 800,000 shares with nominal value of BGN 100 each. The shares are ordinary, materialised, registered and indivisible, and each share gives the right to one vote. The sole owner of the capital is BDB EAD. The capital of NGF is fully paid in.

The seat and registered address of the NGF is 1000 Sofia, 1 Dyakon Ignatii Str. The Company rents an office in Sofia 1421, 105 Arsenalski Blvd.

The number of employees of NGF as of 31 December 2021 is 11.

As of 31 December 2021, NGF had no branches.

### **1.4. BDB MICROFINANCING EAD (BDB MICROFINANCING)**

BDB Microfinancing EAD, UIN 201390740 was registered into the Commercial Registry on 14 January 2011. The scope of activity is micro-financing, including providing micro-loans, acquiring from third parties and leasing industrial equipment, automobiles and other vehicles, as well as other items /finance lease/, purchase and sale, and import of such items, consulting services, trade representation and mediation for local and foreign

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physical and legal bodies performing their activity in the country, as well as any other activity not forbidden by law.

By decision dated 23 March 2021 of the Management Board of BDB in its capacity of sole owner of the capital of BDB Microfinancing EAD the name of the company was changed from Microfinancing Institution JOBS EAD to BDB Microfinancing EAD (entered in the Trade Register on 12 April 2021) and at the same time the company's statute was also changed. The change reflects more fully the focus of the company in support of micro businesses, as well as its affiliation to the financial group of the Bulgarian Development Bank EAD. For 11 years BDB Microfinancing EAD has been creating conditions for successful development of micro and small enterprises, using effective models and practices in the field of lending and leasing.

By decision dated 1 September 2021 the Management Board of BDB, in its capacity of sole owner of the capital of BDB Microfinancing EAD the company's capital was increased with cash amount of BGN 7 million by issuing 70,000 new ordinary, registered shares with nominal amount of BGN 100 each. The new shares are subscribed by BDB and the increase is entered in the Commercial Register on 13 October 2021. In relation to the capital increase the Statute of BDB Microfinancing EAD was also changed.

The registered capital of BDB Microfinancing EAD as of 31 December 2021 amounted to BGN 14,643,000 divided into 146,430 shares with nominal value of BGN 100 each. The shares are ordinary, materialised, registered and indivisible, and each share gives the right to one vote. The company's capital is fully paid in.

The seat and registered address of the BDB Microfinancing EAD is 1000 Sofia, 1 Dyakon Ignatij Str. The Company rents an office in Sofia 1421, 105 Arsenalski Blvd.

The number of employees of BDB Microfinancing EAD as of 31 December 2021 is 15.

As of 31 December 2021, BDB Microfinancing EAD had no branches.

## **1.5. CAPITAL INVESTMENTS FUND AD (CIF)**

Capital Investments Fund AD was incorporated on 24 August 2018 and registered on 4 October 2018 as a joint-stock company with 100 percent of ultimate participation of BDB (84.62% direct participation of BDB, or 550,000 shares, and indirect participation through NGF – 15.38%, owner of the remaining 100,000 shares).

Capital Investments Fund AD is a financial institution entered on 6 June 2022 by BNB in the Register under art. 3a, para 1 of the Law on Credit Institutions. The registered and paid-in share capital as of 31 December 2021 consisted of 650,000 registered shares with par value of BGN 100 each, totalling BGN 65,000,000.

The scope of activity of CIF includes:

- Participation in the capital of small and medium-sized enterprises;
- Provision of consulting services regarding the capital structure of small and medium-sized enterprises; consultancy and services relating to business transformation under Article 261 of the Commercial Act;
- Investment consultancy;
- Consulting services on the management of pools of securities of small and medium-sized enterprises;

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- Other activities, not specifically prohibited by law.

A key priority is to ensure capital for the growth of small and medium-sized enterprises with established business model and opportunities for accelerated expansion on the internal and international markets.

The seat and registered address of the Capital Investments Fund AD is 1000 Sofia, 1 Dyakon Ignatij Str.

The number of employees of CIF as of 31 December 2021 is 5.

As of 31 December 2021, CIF had no branches.

#### **1.6. BDB LEASING EAD (BDB LEASING)**

BDB Leasing EAD, UIN 205565411 was established on incorporation meeting held on 06.03.2019 and registered into the Commercial Register on 12.03.2019. Bulgarian Development Bank EAD has 100% direct participation in the company.

The scope of activity includes finance lease, granting loans with funds not raised through publicly attracted deposits or other repayable funds and any additional and servicing leasing and lending activities.

The sole owner of the capital of BDB Leasing EAD is Bulgarian Development Bank EAD.

As of 31 December 2021, the registered capital of BDB Leasing amounts to BGN 20,000,000 and is divided into 200,000 shares with a par value of BGN 100 each. The shares are ordinary, materialised, registered and indivisible, with each share giving one vote.

The seat and registered address of BDB Leasing EAD is Sofia, 1 Dyakon Ignatij Str. The company uses rented office in Sofia, 10 Stefan Karadzha Str., floor 2.

The number of employees of BDB Leasing as of 31 December 2021 is 12.

As of 31 December 2021, BDB Leasing had no branches.

#### **1.7. BDB FACTORING EAD (BDB FACTORING)**

BDB Factoring EAD (BDB Factoring), UIC: 205566082 is a company established on 6 March 2019 and entered in the Trade Register at the Registry Agency on 13 March 2019 as a joint stock company with sole owner of the capital Bulgarian Development Bank EAD. The company was established based on art. 4, para. 7 of the Law on the Bulgarian Development Bank as a subsidiary of the Bank.

The scope of activity of BDB Factoring EAD includes transfer transactions of single or periodic cash receivables arising from the supply of goods or provision of services /factoring/, granting loans with funds not raised through publicly attracted deposits or other repayable funds and any additional and servicing factoring and lending activities.

The company' capital was paid in full at the establishment and amounts to BGN 2,000,000, divided into 20,000 ordinary registered shares with a par value of BGN 100 each.

The seat and registered address of BDB Factoring is Sofia, 1 Dyakon Ignatij Str. The company uses rented office in Sofia, 10 Stefan Karadzha Str., floor 2.

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The number of employees of BDB Factoring EAD as of 31 December 2021 is 10.

As of 31 December 2021, BDB Factoring EAD had no branches.

By Protocol №21/23.03.2021 the Management Board of BDB in its capacity of sole owner of the capital of BDB Factoring EAD took a decision to merge BDB Factoring in BDB, and BDB will assume fully the activities of BBR Factoring EAD, as well as its assets and liabilities. The Bulgarian National Bank and the Commission for Protection of Competition have adopted decisions in relation to the transformation and finalization of the transformation procedure is forthcoming.

On 13 May 2022, an agreement was announced on the account of Bulgarian Development Bank EAD and BDB Factoring EAD for the transformation of BDB Factoring EAD through a merger with Bulgarian Development Bank EAD. Decisions were taken for the transformation through merger under art. 262 of the Commerce Act on behalf of the Minister of Innovation and Growth and the Management Board and Supervisory Board of Bulgarian development Bank EAD which are to be entered in the Trade Register.

The merger process is expected to be completed in July 2022. Until the planned date of the merger, BDB Factoring EAD will continue its activities as an independent legal entity.

## **1.8. SIGNIFICANT CHANGES IN THE MANAGEMENT BODIES AND STATUTES OF THE SUBSIDIARIES FROM THE BEGINNING OF 2021 UNTIL THE DATE OF APPROVAL OF THIS REPORT**

### **1.8.1. BDB Microfinancing EAD (BDB Microfinancing)**

By Decision under Protocol of 17 August 2021 of the Management Board of BDB EAD in its capacity of sole owner of the capital of BDB Microfinancing EAD Mr. Vladimir Rashkov Gueorguiev was elected member of the Board of Directors of BDB Microfinancing EAD and this circumstance was entered in the Commercial Register on 23 August 2021. Mr. Vladimir Rashkov Gueorguiev was also elected as chairman of the company's Board of Directors.

By Decision under Protocol of 2. August 2021 of the Management Board of BDB EAD in its capacity of sole owner of BDB Microfinancing EAD Panayot Ivov Filipov and Angelina Georgieva Angelova were dismissed as members of the Board of Directors of the company and Boyan Stefanov Byanov was elected as new member. These circumstances were entered in the Commercial Register on 30 August 2021.

By Decision under Protocol of 10.06.2022 of the Management Board of BDB in its capacity of sole owner of BDB Microfinancing EAD Mr. Vladimir Rashkov Gueorguiev was released as a member of the Board of Directors and Mariana Dimitrova Petkova was elected as a new member. These circumstances are recorded in the Commercial Register on 23.06.2022.

### **1.8.2. BDB Leasing EAD (BDB Leasing)**

By Decision under Protocol of 17 August 2021 the Management Board of BDB EAD in its capacity of sole owner of the capital of BDB Leasing EAD dismissed Jivko Ivanov Todorov as a member of the company's Board of Directors. He was replaced by Krum Georgiev Georgiev. The circumstance is entered in the Commercial Register on 23 August 2021. Mr. Krum Georgiev Georgiev was elected as Chairman of the company's Board of Directors.

### **1.8.3. DB Factoring EAD (BDB Factoring)**

By Decision under Protocol of 2 September 2021 of the Management Board of BDB EAD in its capacity of sole owner of the capital of BDB Factoring EAD Panayot Ivov Filipov and Todor Hristov Gunchev are dismissed as members of the Board of Directors of the company and Tsanko Rumenov Arabadzhiev and Krum Georgiev Georgiev were elected as new members. The circumstances were entered in the Commercial Register on 16 September 2021. Mr. Tsanko Rumenov Arabadzhiev was elected as chairman of the company's Board of Directors.

### **1.8.4. Capital Investments Fund AD (CIF)**

By Decisions of the general meeting of the shareholders of the company held on 30 July 2021, 13 August 2021, 7 September 2021 and 22 November 2021 new members of the Board of Directors of CIF AD were elected – Tsanko Rumenov Arabadzhiev, Stefan Stefanov Tamnev and Krasimir Tanev Atanasov. Nikolay Dimitrov Dimitrov, Tihomir Gochev Chemshirow and Tsvetomir Georgiev Tsanov were dismissed as members of the Board of Directors.

These circumstances were entered in the Commercial Register on 5 August 2021, 20 August 2021, 14 September 2021 and 26 November 2021, respectively. Mr. Tsanko Rumenov Arabadzhiev was elected chairman of the company's Board of Directors and Mr. Stefan Stefanov Tamnev as deputy chairman and Executive Director of the company.

By decision of the general meeting of shareholders of the company held on 30 July 2021 the Statute of Capital Investment Fund AD was amended, and the amendments are related to changes in the number of members of the Board of Directors, how to convene a general meeting of shareholders, and a clarification that the total amount of the Capital Investment Fund's participation in the capital of a commercial company may not exceed 10% of the capital of the fund and the amount of BGN 5,000,000.

The established procurator's position was terminated by an entry in the Commercial Register from 6 December 2021, when Angel Penev Hadjiev, in his capacity of procurator, was deleted.

### **1.8.5. National Guarantee Fund EAD (NGF)**

By Decision under Protocol of 16 September 2021 of the Management Board of BDB EAD in its capacity of sole owner of the capital of National Guarantee Fund EAD Mr. Deyan Petrov Kalapchiev was elected as member of the Board of Directors of the National Guarantee Fund EAD and this circumstance was entered in the Commercial Register on 27 September 2021.

By Decision under Protocol of 10.06.2022 of the Management Board of BDB EAD in its capacity of sole owner of National Guarantee Fund EAD Mr. Jivko Ivanov Todorov was released as a member of the Board of Directors. This circumstance was entered in the Trade Register on 23.06.2022.

## 2 HIGHLIGHTS, ACTIVITIES AND PROJECTS IN 2021

### 2.1. KEY EVENTS AND PROCESSES

#### 2.1.1. *Regulatory changes*

In 2021 the following may be indicated as the most significant changes to the regulatory framework of the BDB Group: Guidelines on customer due diligence and the factors credit and financial institutions should consider when assessing the money laundering and terrorist financing risk (EBA/GL/2021/02), applied as of 30.06.2021; Guidelines on internal governance (EBA/GL/2021/05), applied as of 31.12.2021; Guidelines on sound remuneration policies (EBA/GL/2021/04), applied as of 31.12.2021; Guidelines on the assessment of the suitability of members of the management body and key function holders (EBA/GL/2021/06), applied as of 31.12.2021; Guidelines on the assessment of breaches of the large exposure limits (EBA/GL/2021/09), applied as of 01.01.2022; Ordinance amending and supplementing BNB Ordinance No. 4, as well as changes in the Law on Payment Services and Payment Systems, Law on Credit Institutions and Markets in Financial Instruments Act.

#### 2.1.2. *Rating*

In March 2021, Fitch Ratings revised the outlook for the Bank's long-term credit rating from "BBB" / stable to "BBB" / positive. This is the highest credit rating for a Bulgarian financial institution, and for BDB it is limited to the rating of the sovereign – the Bulgarian state. This rating was confirmed during the regular annual review in August 2021.

<b>Rating effective as of:</b>	<b>Date of preparation of the rating:</b>	<b>Long-term Rating (IDR, SRF)</b>	<b>Outlook</b>
31.12.2019	27.11.2019	BBB	Stable
31.12.2020	14.10.2020	BBB	Stable
As of 31.12.2021 and the date of approval of the annual consolidated financial statements	01.10.2021	BBB	Positive

The rating agency's assessment is based on the reliable support of the sovereign – the Bulgarian State, its good capitalisation, and its role in supporting the government's economic policy. The stable outlook shows the existence of a balance in risks associated with credit rating assessments.

The stable equity base contributes significantly to the high capital adequacy. BDB is the institution with the highest level of capitalization in the banking system of Bulgaria, significantly above the statutory minimum.

### 2.2. BUSINESS HIGHLIGHTS

In 2021, the development of the Group's product and credit portfolio, as well as the diversification of funding sources continued.

### **2.2.1. COSME+ Programme**

At the end of 2021, BDB has concluded agreements under the Programme of Bulgarian Development Bank for development of indirect financing of small and medium-sized enterprises with guarantee facility and counter-guarantee under COSME Programme of EIF with the support of the European Fund for Strategic Investments (COSME+ Programme) with two commercial banks and six non-bank financial institutions with approved amount of BGN 51,143 thousand. The programme is implemented with the support of the European Fund for Strategic Investments for indirect financing of small and medium-sized enterprises with guarantee facility and counter-guarantee. The mechanism implemented by EIF Cosme+ Programme upgrades the Entrepreneurship and Innovation Programme (EIP) established within the period 2007 - 2013. The total budget amounts to EUR 2,300,000 thousand in the period 2014-2020. It covers four areas of support – improving access to finance for SMEs in the form of equity and debt instruments; improving access to markets for SMEs globally; improving the framework conditions for business competitiveness and promoting entrepreneurship. In 2021 a new on-lending agreement for EUR 515 thousand was concluded under Cosme+ Programme and the granted sub loans amount to BGN 5,787 thousand. The only request for payment in 2021 under the guarantee commitment of BDB, amounting to EUR 34 thousand is satisfied for which BDB has received a corresponding payment under the counter-guarantee given by the EIF.

### **2.2.2. Leasing Line Programme**

In 2021 two new on-lending agreements have been concluded for EUR 5,720 thousand under the Leasing line programme which is aimed at partners which are non-banking financial institutions – lessors registered at BNB and which are carrying out financial leasing. The programme is designed to lend to leasing companies in order to facilitate access to resources for the purchase and leasing of assets used in the business of small and medium-sized enterprises. The cost of financing is 3 months EURIBOR + 2.5%, but not less than 2.5%. Leasing companies finance SMEs up to a maximum of 6.5%.

### **2.2.3. BROWD Programme**

BDB continue to implement the newest product for **indirect financing to small and medium-sized enterprises BROWD Programme**. The Programme budget is EUR 20 million. The financing interest is 6-month EURIBOR + 2.5% margin but not less than 2%. The partners under the BROWD Programme finance small and medium-sized enterprises with interest rate of 6-month EURIBOR + 5.7% and maximum APR up to 10%. As of the end of 2021 there are three signed agreements at the amount of EUR 5 million. In 2021 two agreements have been signed at the amount of EUR 3 million and the granted sub-loans for the respective year amount to BGN 4,542 thousand under the Programme.

### **2.2.4. National Program for Energy Efficiency of Multi-Family Residential Buildings (NPEEMFRB)**

In 2021 Bulgarian Development Bank EAD continues the activities under the National Program for Energy Efficiency of Multi-Family Residential Buildings (NPEEMFRB) approved by Decree No 18 of 2 February 2015 of the Council of Ministers of the Republic of Bulgaria (the Programme). The Programme targets the renovation of multi-family residential buildings with a main objective to secure better living conditions for the residents, heat

comfort and higher quality of living environment. The implementation of energy efficiency measures in multi-family residential buildings will contribute to higher level of energy efficiency and energy costs decrease; improving the exploitation features; extending the life cycle of the buildings and providing conditions of living in line with the sustainable development criteria. The Programme has significant environmental effect – according to an expert evaluation as a result of the Programme, the expected reduction of carbon dioxide emissions is estimated at 319,000 tCO<sub>2</sub>/year and the energy saving is 726,000,000 kWh/year. The economic effect is also related to giving more opportunities to the economic activity of business - designers, construction industry, companies for technical research, companies for energy efficiency research, materials' producers, etc., as well as participation in the implementation of the Programme of small and medium-sized companies from all over the country. The Programme achieves also social effects by improving the living conditions in the buildings, energy cost cutting, providing additional employment, establishing traditions in the management of multi-family residential buildings, increasing public awareness of the ways for energy efficiency enhancement.

The programme activities cover the entire territory of the Republic of Bulgaria, within 265 municipalities with total financial resource under the Programme at the amount of BGN 2 billion.

#### **2.2.5. Anti COVID-19 guarantee programmes**

In 2020, the Bank, on the basis of decisions of the Council of Ministers of the Republic of Bulgaria, became a guarantor to a group of Bulgarian commercial banks for loans to individuals and legal entities in order to overcome the consequences of the COVID-19 pandemic.

The total amount which BDB may guarantee is BGN 700 million as this amount is fully covered against Bank's capital increase with the same amount in 2020. As of 31 December 2021, BDB issued guarantees for the total amount of BGN 680,938 thousand<sup>4</sup>, guaranteeing exposures under both programmes at the total amount of BGN 649,663 thousand (as of 31 December 2020: BGN 479,462 thousand).

For these programmes, BDB adopted a special provisioning methodology in view of the specifics of the programmes, the customer profile and the structure of product-related inflow and cash outflow commitments. The methodology is described in detail in the Bank's annual financial statements for 2020 and 2021.

At the end of 2021 the expected credit losses provisions on anti-COVID programmes amount to BGN 176,370 thousand (31 December 2020: BGN 120,308 thousand) which according to the Bank is also the maximum potential cumulative negative effect on the liquidity and capital of BDB in medium-term plan resulting from these programmes.

##### **2.2.5.1. Programme for companies – Recovery Programme**

By Decision No 310 of 7 May 2020, the Council of Ministers approved the Portfolio Guarantee Programme to support the liquidity of enterprises affected by the emergency

<sup>4</sup> For the program for individuals, 100% of the principal exposure of the partner bank to the client is guaranteed. For the program for micro, small and medium-sized enterprises, the BDB guarantees 80% of the principal on loans, at a 50% limit on guarantee payments on a portfolio basis.

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state and the COVID-19 epidemic proposed by BDB, with a budget of BGN 500 million. The programme will be secured with the increase of the Bank's capital according to Decision No 215 of the Council of Ministers from 2020.

The guarantee programme, which is part of the government's anti-crisis measures, has a budget of up to BGN 500 million (the budget was decreased to BGN 400 million subsequently due to redirection of funds to anti COVID measures for individuals). As of 31 December 2021, companies from all sectors benefit the programme, and companies from the most affected areas – trade, services, transport and logistics, tourism, hospitality and restaurant business, etc. were financed with priority.

Companies that have encountered difficulties or have fallen into difficulty after 31 December 2019 due to the outbreak of the COVID-19 epidemic may benefit from funding and guarantee.

After the introduction of the renewed conditions under the Recovery Programme, the maximum amount of funding became up to EUR 3 million, regardless of the size of the company, and micro, small, medium-sized companies and so-called "small mid-caps" (with up to 499 employees) from all sectors of the economy can benefit from the guarantee instrument.

Eligible companies must carry out business activity and be registered in Bulgaria, as well as must have at least three completed financial statements, with reported revenue from sales, as well as accounting profit for at least one of the last three years.

The term for repayment of the loans is up to 7 years with the possibility of up to 36 months grace period.

Banks should define all pricing elements, including the interest rate on loans, according to their policy, and in forming the price of loans (i.e. interest, fees, etc.), they should apply their internal rules and usual pricing practice, taking into account the guarantee provided by the BDB.

No material collateral is required. The loans are provided against personal guarantees from the beneficial owners, as well as (if applicable) pledges on receivables from accounts under the Law of Obligations and Contracts, Special Pledges Act, as well as through a financial collateral contract under the Financial Collateral Agreements Act.

The loans are provided at short processing deadlines and with optimized approval time (time-to-yes), respectively refusal, namely: up to 5 working days after receiving the documents necessary for the review of the loan request by the Bank and time for utilization (i.e. a time period between the approval of the Loan and the provision of the borrower with the opportunity to make a real utilization), up to 10 working days.

In connection with the sixth amendment to the Temporary Framework and its extension, the deadline for applying for funding under the SME Programme has been extended until 22 June 2022.

As of the end of December 2021, the portfolio guarantees to commercial banks under the Programme for Assistance of Legal Entities in the fight against the consequences of Covid-19 amounted to BGN 397,500 thousand, at a maximum agreed limit with commercial banks of BGN 795,000 thousand. The result of the Program as at 31.12.2021 amounts to: 2,290 loans guaranteed by BDB with a total confirmed amount of BGN 413,555 thousand.

## 2.2.5.2. *Programme for individuals and households*

By Decision No 257 of 14 April 2020, the Council of Ministers approved the Interest-free loan guarantee programme to protect people deprived of the opportunity to work due to the COVID-19 pandemic, with a budget of BGN 200 million, proposed by the BDB. The programme will be secured with the increase of the Bank's capital according to Decision No 215 of the Council of Ministers from 2020. (Subsequently, the budget was increased to BGN 300 million due to redirection of funds under the anti-COVID programme for small and medium sized enterprises).

The Interest-free loan guarantee programme aims to support employees on unpaid leave and self-insured individuals who are temporarily unable to work in an emergency state.

The programme parameters were further amended in order to increase the benefits for individuals affected by the pandemic by Decision 910/10.12.2020 of the Council of Ministers. They have the opportunity to receive interest-free loans of up to BGN 6,900, which are granted at once or in instalments.

The maximum repayment period is 5 years, with a minimum of 6 months and a maximum of 24 months grace period. No fees, commissions or charges are payable on the loans.

By Decision of the Council of Ministers No 506/2021, the deadline for applying under the Programme for individuals is extended until 31 August 2021 or until the guarantee limits of the commercial partner banks under the Programme are exhausted, which comes first.

In November 2021, amendments to certain parameters of the Measure were notified, in order to adapt to market demand (SA 59499). The latest changes to the Programme (Recovery Programme) approved by Decision of the Council of Ministers No 578/05.08.2021 entered into force after the Decision of EC C (2021) 7260 taken on 01.10.2021 regarding State aid SA.64711 (2021/N)-Bulgaria COVID-19 for second amendment of State aid SA.56933 (2020/N) adopted by Decision of the European Commission No C (2020) 2342 of 8.04.2020.

The deadline for applying for the measure expired on 31 August 2021 and the deadline for granting and utilization of the loans - on 30 September 2021 and as of 31 December 2021 no applying is allowed.

As of the end of December 2021, a total limit for guaranteeing interest-free loans of BGN 290,543 thousand has been agreed under the guarantee agreements concluded with commercial banks. At the end of 2021 52,925 loans at the total confirmed amount of BGN 236,109 thousand were provided under the Programme for individuals and households (as aggregated data).

## 2.2.6. Three Seas Initiative

Within the **Three Seas Initiative**<sup>5</sup> BDB organized and participated in number of events to present and promote its activity to the Bulgarian business. In 2021 there were 3 **mini conferences** dedicated to funding opportunities from the Three Seas Investment Fund and a focus on how companies and projects looking for an investor in equity can partner with 3SIIIF. BDB has also played an essential role in the organisation of **The Sixth Three Seas Initiative Summit and Business Forum**, together with the Ministry of Economy, Administration of the President of the Republic of Bulgaria and Bulgarian Small and Medium Enterprises Promotion Agency (BSMEPA). The event took place with significant interest in July 2021. The event took place in July 2021.

## 2.2.7. The InvestEU<sup>6</sup> Programme

In 2021, the BDB completed Pillar assessment audited by an independent auditor. The final adoption of the evaluation by the EC is expected. In 2021, the BDB also applied in the first announced procedure for financial products of future Implementing Partners, which is expected to be finalised in 2022.

## 2.2.8. New products, programmes and platforms supporting SMEs and specific sectors

### 2.2.8.1. BDB Programme with guarantee from Pan-European Guarantee Fund (PEGF)

The **Pan-European Guarantee Fund** was created as part of the overall package of measures of EU and the European Investment Bank Group to reduce the economic consequences of the COVID-19 pandemic. Its final beneficiaries are mainly small and medium-sized enterprises within the EU and public enterprises providing important services such as healthcare, medical research, etc. Total funding is expected to reach EUR 200 billion. The Group of the Bulgarian Development Bank applied and was approved as a financial intermediary under the guarantee program of the Pan-European Guarantee Fund,

<sup>5</sup> **The Three Seas initiative** (Black, Adriatic, Baltic) aims to strengthen investment, relations and cooperation – politically and financially, between member states in the region. By Decision No 613 of 2 September 2020, the Council of Ministers of the Republic of Bulgaria approved the participation of the BDB in the **Investment Fund of the "Three Seas" Initiative**. At the end of 2020, Subscription Agreement Relating to Three Seas Initiative Investment Fund S.A. SICAV – RAIF was signed between the BDB and the Fund, by which the BDB formally became a Class A shareholder in the Fund. The Fund is a public-private financial instrument aimed at complementing funding from the Structural and Other Funds of the European Union. As a "Class A" shareholder, BDB participates with one representative in the Supervisory Board and the Management Board of the Fund and actively participates in their meetings.

<sup>6</sup> **InvestEU Programme** provides for a single European investment support mechanism for the new programming period 2021-2027. The programme is based on the successful experience of the implementation of the European Fund for Strategic Investments and current EC instruments. The InvestEU Programme will provide a guarantee from the EU budget that will support financial products provided by the implementing partners of the programme. The funds are allocated to four "windows" (areas) in which financial products will be developed: (1) sustainable infrastructure; (2) research, innovation and digitisation; (3) SMEs and small companies with medium market capitalization; (4) social investment and skills. In 2020 BDB received approval by the Commission that is eligible and can be an InvestEU implementing partner and started carrying out the Pillar Assessment as a mandatory condition for concluding Guarantee agreement with the European Commission as Implementing Partner.

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under which its new product was created. In the end of September 2021 BDB presented three new niche products on the Bulgarian market aimed at small and medium-sized businesses, the creative industries sector and manufacturing start-ups. **The programme is in partnership with the Pan-European Fund and has a budget of EUR 40 million**, as through it BDB expects to lend directly with even more facilitated conditions and self-financing depending on the project and business history of the applying companies.

The products under the Programme are as follows:

**1) Creative for funding creative industries with the following parameters:**

- Amounts up to BGN 500 thousand
- With the possibility of 5% self-participation
- With minimum collateral

**2) StartUP for financing start-ups in production with the most difficult access to finance, with the following parameters:**

- Amounts up to BGN 250 thousand
- Up to 10% self-participation
- With collateral – the purchased asset

**3) Business for funding SMEs from all sectors and scoped out from Creative & StartUP with the following parameters:**

- From BGN 100 thousand to BGN 5 million
- Term up to 10 years, with up to 18 months grace period
- With the possibility of 5% self-participation
- With minimum collateral requirements

#### **2.2.8.2. *Green Energy Funding Programme***

In October 2021, the BDB announced **Green Energy Funding Programme**. The Bulgarian Development Bank will finance the construction of photovoltaic plants with power up to 1MW/p for the needs of the business. The credit product is in response to the growing concern of companies about electricity prices in Bulgaria and Europe and rising demand. Switching business to solar energy is a workable solution in the context of depleted non-renewable sources and the EU's carbon neutrality targets.

The Programme parameters are as follows:

- For micro, small and medium-sized enterprises
- Up to 95% of the value of the plants
- Minimum self-participation
- Term up to 15 years

BDB sets as a long-term goal the support of the green transition of the Bulgarian economy and the increase in the share of clean energy sources, as 25 percent of global greenhouse emissions come from electricity production. The construction of green energy capacity is part of the European Commission's package of measures included in the so-called Green Deal aimed at reducing carbon footprint by 2050.

#### **2.2.8.3. *Business Booster digital platform***

**In December 2021, BDB launched the Business Booster digital platform.** This is the latest platform developed by the Bulgarian Development Bank to help entrepreneurs, small, medium-sized and start-ups. Consulting and financial services are offered, as well

as an academy with tips for the realization of the production. Business Booster includes several main components: business academy, online loan application and E-market. The Business academy offers different manuals with clear and specific information.

#### **2.2.8.4. *Products to support the tourism sector***

Products "**Support for hoteliers**" and "**Support of restaurateurs**" were created to support the tourism sector most affected by the Covid 19 crisis. Thanks to these products, companies in the sector can benefit from working capital necessary for the payment of inventories, salaries, labour costs and overheads, including rental and advertising costs; to refinance existing obligations to the country and to suppliers; to refinance existing liabilities to financial institutions (including overdue up to 90 days); for refreshment and renewal. These programmes were implemented in the first quarter of 2022. Details about the products are presented in section 12.

#### **2.2.8.5. *Bulgarian Rose Program***

**Product under the Bulgarian Rose Programme** – through this product, the BDB strives to meet the demand and need of SMEs for financing, including through niche products for traditional sectors for Bulgaria, such as rose oil production. The product was created in response to the appeal of representatives from the rose processing sector for working finance of their upcoming business year. This product was implemented in the first quarter of 2022. Details about the products are presented in section 12.

#### **2.2.8.6. *Lease 2021 Guarantee Scheme***

In 2021, the **National Guarantee Fund** launched a new risk-sharing scheme aimed at leasing companies – Lease 2021 Guarantee Scheme. The aim of the programme is to facilitate SMEs' access to leasing through a risk-sharing scheme.

The scheme targets both existing companies and start-ups and provides for leasing transactions for the purchase of long-term tangible assets, transport vehicles and real estate.

The minimum portfolio that NGF can form to a leasing company is BGN 5 million and the maximum – BGN 70 million and the guarantee limit for final lessees and related parties is up to BGN 750 thousand. The deadline for inclusion of loans is until 31.12.2023, providing up to 50% guarantee coverage of the loans. The deadline for the transfer of the assets from the leases included in the guaranteed portfolio is 30.06.2024. The deadline for claiming payments under the guarantee agreement is 31.12.2028.

#### **2.2.8.7. *"New Beginning BDB Microfinancing" Loan***

**In October 2021**, BDB Microfinancing announced a new product in its portfolio – **New Beginning Loan**, which will support representatives of vulnerable groups who want to start their own business. The company will lend to companies and self-employed persons, including unemployed, young and disabled people. The product is also aimed at supporting social enterprises (so-called "businesses with a mission"). BDB Microfinancing has concluded a guarantee agreement with Fund Manager of Financial Instruments in Bulgaria EAD (Fund of Funds) for a portfolio guarantee with a loss-limit for microfinance. The resource is under the Operational Programme "Human Resources Development 2014-2020" (OPHRD), co-financed with funds from the European Social Fund. The guarantee

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resources under the BDB Microfinancing programme are **BGN 1 million**, and the loans to final recipients is expected to reach **BGN 5 million**.

The programme will enable small and medium-sized enterprises in Bulgaria (start-ups and developing companies) to use investment or working capital loans **up to EUR 50 thousand** (BGN 97,791) under relaxed conditions and **25%** higher interest rates than the standard ones provided by the financial institution. The deadline for its repayment is longer than similar products on the financial market – up to 5 years.

#### **2.2.8.8. *Leasing program under the Pan-European Guarantee Fund***

BDB Leasing EAD was one of the first financial institutions in Bulgaria, which in May 2021 signed a guarantee agreement with the European Investment Fund (EIF) under the Pan-European Guarantee Fund programme in response to the Covid-19 pandemic for direct financing of small and medium-sized enterprises under relaxed conditions with an EIF guarantee. The Pan-European Guarantee Fund programme was established by the European Union as a response to the economic crisis caused by the Covid-19 pandemic and provides guarantees to financial institutions from EU Member States to support the recovery of companies and sectors affected by the pandemic. Beneficiaries of the guarantee program are small and medium-sized enterprises that have access to lease funding under relaxed conditions - reduced self-participation requirements (0% for transport means and 5% for machinery and equipment), longer repayment periods (up to 96 months), as well as financing of companies with a shorter business history. According to the signed agreement, the guaranteed portfolio amounts to up to EUR 20 million and EIF covers up to 70% of the loss at the individual exposure level.

As at 31 December 2021, 28 leasing contracts were concluded with 12 lessees with a total funded value of BGN 5,849 thousand under the Pan-European Guarantee Fund Programme.

In January 2022, an additional agreement with EIF was approved, according to which the deadline of the guarantee programme is extended to 30 June 2022 and the maximum state aid limits for individual sectors were increased.

#### **2.2.9. *Highlights of the activities of subsidiaries, projects and important activities***

##### **2.2.9.1. *NGF***

The National Guarantee Fund aims to provide guarantees for the benefit of SMEs, thereby facilitating businesses' access to finance.

In 2021, the National Guarantee Fund (NGF) has issued guarantees for BGN 90 million, supporting over 600 clients who received funding totalling BGN 192 million, including under the COSME programme implemented with funds from the Juncker Plan.

In the past year 2021, the NGF managed to develop a guarantee scheme, allowing counter guarantee under the COSME+ programme of the European Investment Fund /EIF/ and the NGF guarantee scheme. Guarantees amounting to BGN 79 million were issued and the total amount of the issued guarantees on both instruments was BGN 224 million.

The successful implementation of the joint guarantee scheme with the Ministry of Agriculture, Food and Forestry continued and in 2021 loans were guaranteed in the amount

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of BGN 7 million. The total number under the guarantee programme is 335 guarantees on loans amounting to BGN 223 million.

Since its launch in 2008 until the end of 2021, the National Guarantee Fund realised 9 guarantee programmes, supported over 10,800 enterprises which received funding totalling BGN 2.96 billion.

#### **2.2.9.2. *BDB Microfinancing***

In 2021, BDB Microfinancing provided financing to end-customers under 117 loan and lease agreements at the amount of BGN 10,266 thousand.

As of 31 December 2021, the active loan and lease portfolio of the company amounts to BGN 29,049 thousand at amortised cost after impairment and comprises 520 loan and lease transactions. In addition, the company has receivables from 12 associations (11 business centres and 1 non-profit association) worth BGN 1 thousand after impairment.

In 2020, the company also created a new product, secured with a EIF guarantee, which provides financial support to micro-enterprises affected by the pandemic. As of 31 December 2020, 53 loans have been granted under the new product of BDB Microfinancing EAD with a total value of BGN 2,248 thousand, and as of 31.12.2021 13 loans were granted with a total value of BGN 447 thousand.

#### **2.2.9.3. *BDB Leasing***

In addition to the existing company internal regulatory framework, in 2021 the following normative documents were adopted and updated: Internal rules on exchange of information between BNB and BDB Leasing according to Ordinance No 22; Internal rules for prevention and countering abuses and fraudulent activities in BDB Group; Outsourcing policy; Policy and methodology for setting rules for expected credit loss and impairment; Policy of the Bulgarian Development Bank on treatment of related customers; Rules on access rights to the Ultimate Leasing application at BDB Leasing EAD; Rules on risk management and assessment of BDB Leasing EAD; Rules and procedures for leasing activities of BDB Leasing EAD; Procedure for receiving and handling complaints; Accounting policy of BDB Leasing EAD.

The company is member of the Bulgarian Leasing Association (BAL);

84 new leases with a total funded value of BGN 33,049 thousand were concluded in 2021. Thirty of the leases worth BGN 6,167 thousand are not in the active portfolio of the Company, since as of 31 December 2021 they are in the process of delivering the leased assets, and advance payments under sales contracts were made amounting to BGN 973 thousand excluding VAT.

As of 31 December 2021, 132 (one hundred and thirty-two) financial lease contracts with a total funded value of BGN 77,830 thousand (31 December 2021: BGN 44,781 thousand). All contracts are concluded with floating interest of 3-month EURIBOR plus a mark-up.

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The carrying amount of contracts in the active portfolio as at 31 December 2021 amounts to BGN 56,778 thousand (2020: BGN 39,375 thousand), which is growth of 44% compared to 2020.

#### 2.2.9.4. *BDB Factoring*

In 2021, BDB Factoring has purchased trade receivables totalling BGN 53 million, thus has supported more than 40 enterprises' financing needs as a result of intercompany indebtedness. Within the year, factoring contracts with new for the company clients with a total value of BGN 7.5 million were approved and signed and as of the end of 2021 the Company has concluded 16 factoring contracts with 13 clients with a total value of BGN 30 million and has created receivables from them worth BGN 11 million.

#### 2.2.9.5. *CIF*

In 2021, 104 potential transactions were reviewed and the Fund has participated in the capital increase of 3 companies, the total value of investments of the Fund amounting to BGN 8,956 thousand.

### 2.2.10. *Selected successful projects in the BDB Group*

**BDB has funded a company specializing in the construction of heating systems and the production of biomass heating facilities.** The company designs and manufactures innovative facilities with high efficiency, precise quality and contemporary design. The company has developed its own line of pellet boilers and fireplaces designed for heating residential and commercial premises. Own products are protected by patents and are distinguished by a number of innovations. The additional funding provided by BDB EAD is aimed at supporting business expansion in Bulgaria and the neighbouring countries – opening 5 own stores in Varna, Sofia and Plovdiv, Bucharest (Romania) and Thessaloniki (Greece). The realization of the project creates additional jobs, promotes the development of the regions and the local economy.

**BDB has funded an investment project under a contract with the State Fund Agriculture, which is in the process of successful implementation. The project is under the measure "Investments in enterprises" of the national programme for support for the wine sector 2019 - 2023.** The borrower is a family company engaged in growing vineyards and producing high quality wine from own grapes. The project provides for expansion and modernisation of the production activity through the construction and commissioning of a wine house for wine storage, ageing and bottling. The acquisition of own production base and the purchase of modern equipment are funded.

In 2021 with funding from BDB MICROFINANCING EAD:

- A company from Plovdiv, organizing and conducting street-culture festivals (home-made arts and crafts) was supported;
- A modern dental practice was built in the city of Burgas, which grew in 2021 with another site;
- A company based in Vidin renovated the Georgi Benkovski Bulgarian Air Force Academy in the town of Dolna Mitropolia;
- A project was carried out for the construction of a home for senior citizens in the town of Kalugerovo.

## 2.3. ATTRACTED FUNDING

### 2.3.1. International financial institutions

It is the policy of BDB to attract mainly long-term resources to finance its lending activity, thus creating a natural balance between the term of the asset and the liability. Since its incorporation until now BDB has concluded more than 30 loan agreements with 17 international institutions, at the total amount of EUR 1,263 billion. Given the high liquidity of the Bank, in 2021 the Portfolio Guarantee Agreement with EIF amounting to EUR 40 million as part of the Pan-European Guarantee Fund has mainly contributed to the collaboration with international financial institutions.

### 2.3.2. Bond issue

By decision of the BDB Board dated 19.10.2021 (confirmed with decision of the National Assembly dated 18.11.2021), the BDB Board was authorised to proceed with the issue of unsecured bonds of up to EUR 1 billion and maturity of up to 7 years. The issue is planned to be used to prepay certain obligations to lenders, mainly to the Development Bank of China, Industrial and Commercial Bank of China and the Export-Import Bank of China. As at the date of preparation of this report, the Bank is in the process of preparing the final documentation on the issue.

The Bank considers that the bond issue and subsequent repayment of liabilities to international lenders will not materially change the maturity profile (expected to be increased) of liabilities and, therefore, would not have a material impact on liquidity in the short and medium term.

The Bank and the issue syndicate are closely monitoring the financial markets. The issue will only be marketed under appropriate maturity and yield conditions relative to the current liability structure.

## 2.4. PUBLIC COMMUNICATIONS AND RELATIONS

One of the most significant events for BDB in 2021 was the amendment of the Statute of BDB and the changes in BDB's governing bodies – Supervisory Board and the Management Board. The new management team was presented to the public and a series of activities was organized, related to communicating the new strategic focus in the activities of the group – support for small and medium-sized enterprises and limiting large credit exposures.

In the second half of the year, newly created products and funding programmes were promoted, including the green energy programme, products with a guarantee from the Pan-European Guarantee Fund to support SMEs, start-ups and creative industries, as well as the creation of the Bank's new digital platform Business Booster (see 2.2.7).

In 2021, the communication and PR activities related to the government measures implemented by the Bank for individuals and businesses, affected from the COVID-19 pandemic were continued (see 2.2.4). The Bank regularly reported on the progress of the measures and continued the practice of maintaining a public register with the companies that have received funding.

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As a shareholder in the Three Seas Initiative Investment Fund (3SIIIF), in the past year BDB organized a series of events aimed at promoting the fund in Bulgaria and presenting it to the Bulgarian business. Three mini conferences dedicated to equity investments were held, and the Bank took the lead, including the leading financial role at the Three Seas Initiative Summit and Business Forum (8-9 July 2021, Sofia).

In 2021, BDB hosted another international forum. Together with the Bulgarian Small and Medium Enterprises Promotion Agency (BSMEPA), the Bank organized the 17<sup>th</sup> annual meeting of the International Network for Small and Medium-sized Enterprises (INSME) in Sofia (9-10 December 2021).

### **3 OVERVIEW OF THE ECONOMIC ENVIRONMENT AND BANKING SECTOR IN 2021**

#### **3.1. ECONOMIC ENVIRONMENT**

In 2021, the recovery of the global and European economy was accompanied by higher energy costs, supply chain difficulties and price growth. The high level of prices, especially of energy commodities, has caused inflation to accelerate at the end of 2021. The conflict between the Russian Federation and Ukraine has further complicated the macroeconomic situation. Real GDP growth in the EU will slow due to higher prices, reduced exports to the Russian Federation and Ukraine, the postponement of some of the investments due to high uncertainty, delays/difficulties in the supply of raw materials.

In 2021, the real growth of Bulgaria's gross domestic product reached 4.2% with an expected growth of 3.7% in the forecast to the Updated Medium-Term Budget Forecast (UMBF) 2022-2024 of the Ministry of Finance (MF). Higher growth is due to a larger than expected increase in consumption. The situation in connection with the military conflict has changed also the economic prospects for Bulgaria. Lower growth is expected in 2022 and 2023 compared to 2021, at 2.6% and 2.8%, respectively.

In 2021, regard to the exports of goods from Bulgaria to the EU the highest growth compared to 2020 is in the sectors "Animal and Vegetable Fats, Oils, and Waxes" (106%) and "Mineral fuels, oils and similar products" (99%). Imports from the EU in 2021 increased by 27% year-on-year, with imports from Germany, Romania, Italy, Greece, the Netherlands and Hungary the largest.

Only in December 2021, imports increased by 41% compared to the same month of 2020 and amounted to BGN 4.5 billion.

Imports of goods from the EU in 2021 recorded the largest increase compared to the previous year in the sector "Animal and Vegetable Fats, Oils, and Waxes" (168%). There has been no decline in any of the sectors.

In 2021, a process of gradual recovery of employment in the Bulgarian economy began to the levels observed in the pre-crisis months of 2019. The unemployment rate in the country remained low in 2021 (5.3%), with Bulgaria being among the ten EU 27 countries with the lowest values of this indicator. According to the MF's spring forecast, the unemployment rate will follow a steady downward trend, with a value of 5.0% predicted for 2022 and 4.2% in 2025.

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From the beginning of 2021, the annual inflation rate in Bulgaria follows a trend of acceleration, which continued at the beginning of the current year. According to the Harmonized Indices of Consumer Prices (HICP), annual inflation in February 2022 reached 8.4%. The main factor with pro-inflation influence was the accelerated appreciation of raw materials on global markets, especially energy and food. Currently, expectations are for continued appreciation of oil and non-energy raw materials in 2022, which will start to slow in the second half of the year. The increase in the overall level of consumer prices will continue to accelerate until the third quarter of the year, after which it will start to slow and inflation at the end of 2022 will reach 10%. Food and energy commodities will make a leading contribution to this.

The deteriorated as a result of the COVID-19 pandemic macroeconomic environment directly affected the quality of the assets of the banks, as a further deterioration in credit quality, an increase in the number of borrowers in difficulty and the impairment of loans are likely to occur as a result of Russia's invasion in Ukraine and subsequent events: the cessation of natural gas supplies to Bulgaria and Russia's threats to use military force against "enemy states" to which Bulgaria belongs.

Government support measures, including monetary, fiscal, regulatory and supervisory measures, have had the desired effect of preventing a financial crisis: liquidity pressures on banks and borrowers have been eased, so liquidity problems have not become solvency problems. One of the lessons of the great financial crisis, when non-performing loans accumulated over time and clogged banks' balance sheets, is that it is important to recognize and distinguish between purely temporary financial difficulties caused by the pandemic and the deterioration of loans which have a more lasting economic character. The allocation of appropriate provisions and recognition of losses before the end of the moratoria and fiscal measures will avoid sharp setbacks and pro-cyclical effects that could increase the economic cost of the pandemic.

In this regard, it is important to further strengthen the initiatives taken in 2021, to ensure that banks have established satisfactory risk management practices so as to identify, measure and reduce the impact of credit risk, and that they have operational capacity to manage the expected increase in the number of borrowers in difficulty.

### **3.2. BANKING SECTOR**

2021 is characterised by lower impairment costs and accrued provisions, increased lending rates, low and negative interest rates and improved performance of the banking sector. As of 31 December 2021, there are 25 banks in Bulgaria, seven of which are branches of foreign banks. Belgian bank KBC and Austria-based Raiffeisen Bank International have entered into an agreement for KBC to acquire 100% of the shares of Raiffeisen bank Bulgaria EAD, which is a second-group bank, according to the BNB classification.

The net interest income of banks increased by 4.5% on an annual basis (decrease of 3.5% year-on-year at the end of 2020) and as of December 2021 amounted to BGN 2.76 billion in the context of increased credit activity during the year. At the end of 2021, net income from fees and commissions increased by 19.5% year-on-year (decrease of 6.1% at the end of 2020) to BGN 1.24 billion. As of 31 December 2021, the net profit of the banking system was BGN 1.416 billion, compared to BGN 814.7 million a year earlier. The

total amount of assets of the banking system increased by 9.2% to BGN 135.41 billion compared to 2020. As of 31 December 2021, the level of Return on Assets (ROA) indicator increased to 1.05% from 0.66% as of December 31, 2020. Return on Equity (ROE) indicator increased to 8.5% from 5.3% for the same period.

At the end of 2021 the coverage rate of gross non-performing loans and advances in the Bulgarian banking system is at a level of 72.1%. By comparison, the coverage rate for European banks, according to ECB data for the third quarter of 2021, is 43.34%.

As of 31 December 2021, the volume of non-performing loans (with a delay of more than 90 days; excluding central banks and credit institutions) fell to BGN 3.07 billion, or up to 4.05% as a share.

As part of the Basel III regulatory framework, as of 28 June 2021, a net stable funding ratio (NSFR) is applied in accordance with Art. 430(1)(d) of Regulation (EU) No 575/2013 with a three-month frequency on an individual and consolidated basis, the regulatory requirement being that they maintain a level of ratio equal to or greater than 100%. According to BNB data, the aggregated level of the NSFR for the banking system is 163%.

In September 2021, BNB set buffer rates for other systemically important institutions (O-SIIs) for eight banks, which from 1 January 2022 will be in the range of 0.50%-1%. The increase in the countercyclical capital buffer by BNB as of October 2022, at a level of 0.5% to 1% applicable to local credit risk exposures and the announced increase to 1.5% from 1 January 2023, will also have an impact on capital indicators.

In 2021, the regular two-year review of the systemic risk buffer was carried out, with the Management Board of BNB confirming its level of 3% of the size of the banks' local risk exposures.

The activities of the banking system were also influenced by the membership of the Single Supervisory Mechanism and the Single Resolution Mechanism, the established close cooperation between the BNB and the ECB and the inclusion of the Bulgarian lev in the exchange rate mechanism (ERM II). In this context, Bulgaria is working on a plan for the adoption of the euro with a technical deadline of 1 January 2024.

### **3.3. LEASING SECTOR**

After shrinkage of the lease market in the first quarter of 2021, over the next three quarters the sector reported growth, resulting in an increase in the total amount of lease receivables for the year. This effect is the result of the recovery of the economy from the beginning of 2021.

As of 31 December 2021, the receivables of the leasing companies under financial and operating lease totalled BGN 4.575 billion (3.5% of GDP) versus BGN 4.308 billion (3.6% of GDP) as of 31 December 2020. Receivables under finance lease contracts amount to BGN 4.351 billion which represent a growth of 6.4% (BGN 263.2 million) compared to the previous year. The share of receivables under finance lease is 95.1% as of the end of 2021, while receivables under operating lease are BGN 224.4 million and the latter increased by 1.6% on annual basis.

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By type of asset at the end of 2021 the largest portfolio of receivables under vehicle leasing contracts with a share of 41.7% of the receivables under finance lease compared to 40% as of 31.12.2020. The portfolio of receivables under contracts for financial lease of trucks and light commercial vehicles is BGN 1,307 billion, representing an increase of 2% (BGN 25.4 million) on an annual basis, representing a share of 30% as of December 31, 2021. The portfolio of receivables under contracts for financial lease of machinery, equipment and industrial equipment as at 31.12.2021 is BGN 1,022 billion (23.5% of finance lease receivables). This is an increase of 9.9% compared to 31.12.2020. As at 31.12.2021 the share of real estate is 3%, others – 1.7%.

As of the end of 2021, the volume of receivables under lease contracts with legal entities was BGN 3,562 billion. This represents an increase of 4.86% (BGN 165 million) on an annual basis. The portfolio of receivables under lease contracts with individuals registered an increase of 12.4% (BGN 98 million) – the total volume for 2020 was BGN 690.6 million.

Non-performing receivables in the portfolios of leasing companies decreased from 2.6% as of 31.12.2020 (BGN 112 million) to 2.0% (BGN 92 million) of total receivables under lease contracts at the end of 2021.

It is expected that the development of the sector in 2022 and subsequent periods will depend mainly on trends in the economy. The development of the sector is directly related to the development of sectors that traditionally use lease financing – transport, construction, agriculture, processing industry.

## 4 OVERVIEW OF ACTIVITY AND SELECTED FINANCIAL INFORMATION

### 4.1. RESULTS OF THE ACTIVITY OF BDB GROUP

#### 4.1.1. Statement of comprehensive income

The Bulgarian Development Bank EAD Group continues to actively pursue its objectives, maintaining high levels of liquidity and capitalization. With the beginning of the COVID-19 pandemic, the Bank was assigned new mandates by increasing its share capital, mainly to provide funds to Bulgarian enterprises which were affected by the lockdown periods, as well as to individuals with significantly reduced income or no income at all. These measures, the reduced economic activity, the fall in nominal interest rates, as well as the temporary moratorium on the payment of liabilities, introduced by the members of the Association of banks in Bulgaria and approved by the BNB and in force till the end of 2021, also led to negative pressure in its operating results as follows:

*Consolidated Statement of comprehensive income for 2021 and 2020 of the BDB Group:*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	2021	2020	Annual change
Interest income	80,076	81,471	(1.7%)
Interest expense	(18,723)	(19,846)	(5.7%)
<b>Net interest income</b>	<b>61,353</b>	<b>61,625</b>	<b>(0.4%)</b>
Net fee and commission income	3,034	4,715	(35.7%)
Net income on foreign exchange deals	426	457	(6.8%)
Net income from financial assets at fair value through other comprehensive income	1,101	2,432	(54.7%)
General and administrative expenses, including staff costs and depreciation/amortization expenses	(34,490)	(38,990)	(11.5%)
Other operating income	2,468	2,286	8.0%
Other operating costs	(1,738)	(900)	93.1%
<b>Operating income before impairment and provisions</b>	<b>32,154</b>	<b>31,625</b>	<b>1.7%</b>
Expenses on impairment of non-financial assets	(665)	(4,568)	(85.4%)
Expenses on impairment of financial instruments	(186,558)	(258,822)	(27.9%)
<b>Loss before taxes</b>	<b>(155,069)</b>	<b>(231,765)</b>	<b>(33.1%)</b>
Income from/Income tax expense	(186)	277	(167.1%)
<b>Net loss for the year</b>	<b>(155,255)</b>	<b>(231,488)</b>	<b>(32.9%)</b>
Actuarial gains on defined benefits plans, net of taxes	11	14	(21.4%)
Net change in fair value of equity financial assets at fair value through other comprehensive income	(11,499)	(77,858)	(85.2%)
Net change in fair value of debt financial assets at fair value through other comprehensive income	(3,014)	(2,794)	7.9%
<b>Total comprehensive income</b>	<b>(169,757)</b>	<b>(312,126)</b>	<b>(45.6%)</b>

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Similar to 2020, during the current financial year interest rates remained negative. The prohibition on the payment of dividends, as well as the significant cash reserves in the banking system, pre-determined interest on interbank deposits, as well as interest on repo transactions in amounts close to those determined by the BNB for balances above 105% of the minimum reserve requirements – near 0.7% per year.

Interest income for 2021 amounts to BGN 80,076 thousand (for 2020: BGN 81,471 thousand) or a decrease of 1.7% compared to the previous accounting year. The decrease is a result of the decreased volume of credit portfolio of the Bank, incl. the decreased volume of receivables under National Program for Energy Efficiency, as well as the less reported income from loans to commercial banks (indirect financing of SMEs) and lower yields on the securities portfolio.

At the end of 2021, interest expenses were 5.7% less than the previous year. year: BGN 18,723 thousand (for 2021) compared to BGN 19,846 for 2020. The BDB Group effectively manages free cash, reducing the effect of negative interest rates on central bank accounts. As a result of the realized in 2021 interest income and expenses net interest income is reported for 2021 – 0.4% lower, compared to 2020, and his value amounts to BGN 61,353 thousand (for 2020: BGN 61,625 thousand).

The net income of fees and commissions is BGN 3,03 thousand, compared to BGN negative and amounts to BGN -328 thousand compared to 4,715 thousand for 2020, which represents a decrease of 35.7% mainly due to costs charged for agency commissions for co-management to commercial banks in connection with the issued portfolio guarantees under the guarantee program for guaranteeing interest-free loans in protection of people deprived of the opportunity to work due to the COVID-19 pandemic.

For the financial year 2021, net profit on financial assets at fair value through other comprehensive income of BGN 1,101 thousand was realised. For the previous year, there was a gain on sale of financial instruments at fair value through other comprehensive income at the amount of BGN 2,432 thousand, or a decrease of 54.7%.

In 2021, general and administrative expenses, depreciation and amortization expenses and personnel expenses, amounted to BGN 34,490 thousand and they are by 11.5% lower than the expenses in 2020 (2020: BGN 38,990 thousand). As of the end of 2021, general and administrative expenses are by 25% below the planned ones in budget 2021, with the cost-to-operating income ratio before impairment at the end of 2021 close to the level for the banking system for the same period.

In 2021, the consolidated financial result of the Bulgarian Development Bank Group after taxes is a loss of BGN 155,255 thousand (for the previous reporting year the result is also loss at the amount of BGN 231,488 thousand). The negative financial result of the Bank in 2021 is due mainly to accrued net expenses for impairments on credit exposures in the amount of BGN 129,619 thousand for 2021 and accrued expenses for impairment on portfolio guarantees issued by BDB to commercial banks under the two anti-crisis programs assigned to the Bank by Decisions of the Council of Ministers in support of individuals and companies affected by the consequences of COVID-19, amounting to BGN 56,307 thousand for 2021.

#### **4.1.2. Financial position**

As of 31 December 2021, the amount of the assets of the BDB Group amounts to BGN 3,268,939 thousand, representing a decrease rate of 13.2% compared to the prior year.

The basic items of the statement of financial position are presented in the table below:

*Consolidated Statement of financial position as at 31.12.2021 and 31.12.2020 of BDB Group:*

<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b>	<b>As of</b>	<b>As of</b>	<b>Change</b>
	<b>31.12.2021</b>	<b>31.12.2020</b>	
<b>Assets</b>			
Cash in hand and balances in current account with the Central Bank	243,635	496,279	(50.9%)
Receivables from banks	385,348	478,700	(19.5%)
Financial assets at amortized cost – Loans and advances to customers	1,695,802	1,829,250	(7.3%)
Financial assets at amortized cost – Receivables from the State Budget	18,817	57,824	(67.5%)
Financial assets at fair value through other comprehensive income – Debt instruments	657,649	649,573	1.2%
Financial assets at fair value through other comprehensive income – equity instruments	70,781	57,709	22.7%
Financial assets at amortized cost – Securities	11,980	12,056	(0.6%)
Property, plant and equipment and intangible assets	64,409	66,645	(3.4%)
Net investment in finance lease	56,977	39,611	43.8%
Other assets	63,541	76,271	(16.8%)
<b>Total assets</b>	<b>3,268,939</b>	<b>3,763,918</b>	<b>(13.2%)</b>
<b>Liabilities</b>			
Borrowings from international institutions	1,110,740	1,238,904	(10.3%)
Deposits from customers other than credit institutions	738,030	980,491	(24.7%)
Deposits from credit institutions	1,742	8,176	(78.7%)
Other borrowings	82,695	85,009	(2.7%)
Provisions	182,050	127,448	42.8%
Lease liabilities	345	279	23.7%
Other liabilities	7,628	7,771	(1.8%)
<b>Total liabilities</b>	<b>2,123,230</b>	<b>2,448,078</b>	<b>(13.3%)</b>
<b>Equity</b>			
Share capital	1,441,774	1,441,774	-
Current and accumulated loss	(388,300)	(231,603)	67.7%
Reserves	(78,471)	(63,958)	22.7%
<b>Total equity</b>	<b>170,706</b>	<b>169,627</b>	<b>0.6%</b>
Reserves	<b>1,145,709</b>	<b>1,315,840</b>	<b>(12.9%)</b>
<b>Total liabilities and equity</b>	<b>3,268,939</b>	<b>3,763,918</b>	<b>(13.2%)</b>

## 4.2. CREDIT ACTIVITY

### 4.2.1. Direct lending

In 2021, the financial group continued to actively develop its business, supporting Bulgarian businesses, continuing to maintain a diversification of the industry structure of its loan portfolio. Greater dynamics is observed in the relative shares in the loan portfolio of the following sectors and subsectors: increase for: Manufacturing – other productions (+142.4%), „Commerce“ (+41.5%); „Manufacturing – production of machines and equipment (+16.8%)“ and decrease for „Manufacturing – production of tobacco products“ (-100%)<sup>7</sup>, „Financial services“ (-38.4%), „Manufacturing – production and distribution of power energy“ (-30.8%), „Transport“ (-18.9%), and „Construction“ (-9.8%).

The credit activity of BDB Group consists of both direct lending and indirect financing through programmes (products) for funding commercial banks, which use the received funds to provide loans to SMEs and agricultural producers, i.e., the so called on-lending.

As at the end of 2021, the financial assets measured at amortised cost amount to BGN 1,726,599 thousand representing a decrease of 9.1% (as of 31 December 2020: BGN 1,899,130 thousand). The reduction is due to:

The reduction is due to:

- The decrease of loans and advances to customers (at the amount of BGN 133,448 thousand), of which decrease of the gross loans of BGN 45,684 thousand and increase of impairments of BGN 87,764 thousand.
- The decrease of receivables from the State Budget (at the amount of BGN 39,007 thousand), mainly because of repayment of the payables on behalf of the Ministry of Regional Development and Public Works under the National Program for Energy Efficiency of Multi-Family Residential Buildings.

### 4.2.2. National Program for Energy Efficiency of Multi-Family Residential Buildings (NPEEMFRB)

The financing of the Program is carried out through the Bulgarian Development Bank. For this purpose, the Bank concludes trilateral contracts with the regional governors (representatives of the state) and the municipal mayors (proxies of the owners' associations). The total agreed funding under the signed contracts is BGN 1,973,964 thousand at the end of December 2021 (compared to the end of 2020 – BGN 1,961,588 thousand). The sites for which special purpose financing contracts have been concluded with the Bank are a total of 2,022 (of which 1,885 buildings under NPEEMFRB and 137 buildings transferred from Energy Renovation of Bulgarian Homes (ERBH) Programme).

Under the National Program for Energy Efficiency of Multi-Family Residential Buildings by the end of 2021 the completed loans under which the Ministry of Regional development and Public Works has forwarded amounts to BDB AD are for 1,931 buildings. The utilized amount is BGN 1,940,603 thousand and gross receivables on loans under NPEEMFRB amount to BGN 18,866 thousand (as of 31.12.2020: BGN 57,975 thousand).

<sup>7</sup> Due to the stepping into debt of borrower from tobacco industry on behalf of a company from the "Trade" sector.

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From the beginning of the Program by the end of 2021, a total of BGN 1,946,164 thousand were repaid with funds from the state budget, which amount includes a principal repayment of BGN 1,922,174 thousand and interest paid on completed contracts at the amount of BGN 23,990 thousand.

The Bank considers that these receivables bear minimal credit risk as far as the source of the repayment is the budget of the Republic of Bulgaria. The special purpose funding from international partners, for partial financing of the program, uses a State guarantee.

#### **4.2.3. Anti-COVID-19 guarantee programmes**

In 2020, the Bank, on the basis of decisions of the Council of Ministers of the Republic of Bulgaria, became a guarantor to a group of Bulgarian commercial banks for loans to individuals and legal entities in order to overcome the consequences of the COVID-19 pandemic.

The total amount that the BDB can guarantee is BGN 700 million, and they were fully secured by increasing the capital of the Bank in 2020 by the same amount.

As of the end of December 2021, under the Programme "Programme for individuals and households" the guarantee agreements concluded with the commercial banks agreed a total limit for guarantee of interest-free loans at the amount of BGN 290,543 thousand. At the end of 2021 52,925 loans at the total confirmed amount of BGN 236,109 thousand were provided under the Programme for individuals and households (as aggregated data).

As of the end of December 2021, under the Programme for companies "Recovery" the portfolio guarantees to commercial banks under the Programme for Assistance of Legal Entities in the fight against the consequences of Covid-19 amounted to BGN 397,500 thousand, at a maximum agreed limit with commercial banks of BGN 795,000 thousand. The result of the Program as of 31.12.2021 amounts to: 2,290 loans guaranteed by BDB with a total confirmed amount of BGN 413,555 thousand.

As of the end of 2021 BDB issued guarantees for the total amount of BGN 680,938 thousand<sup>8</sup>, guaranteeing exposures under both programmes at the total amount of BGN 649,663 thousand (as of 31 December 2020: BGN 479,462 thousand).

For these programmes, BDB adopted a special provisioning methodology in view of the specifics of the programmes, the customer profile and the structure of product-related inflow and cash outflow commitments. The methodology is described in detail in the Bank's annual financial statements for 2020 and 2021.

At the end of 2021 the expected credit losses provisions on anti-COVID programmes amount to BGN 176,370 thousand (31 December 2020: BGN 120,308 thousand) which according to the Bank is also the maximum potential cumulative negative effect on the liquidity and capital of BDB in medium-term plan resulting from these programmes.

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<sup>8</sup> For the program for individuals, 100% of the principal exposure of the partner bank to the client is guaranteed. For the program for micro, small and medium-sized enterprises, the BDB guarantees 80% of the principal on loans, at a 50% limit on guarantee payments on a portfolio basis.

#### 4.3. FUNDING

Funds attracted from international institutions at the end of 2021 comprise 52.3% in the liability structure and amount to BGN 1,110,740 thousand compared to BGN 1,238,904 thousand at the end of 2020. The difference of BGN 128 million for 2021 compared to 2020 is result of agreed repayments on signed financial agreements.

#### 4.4 CAPITAL INCREASE/DECREASE

There is no increase of BDB, NGF, BDB Leasing and BDB Factoring capital in 2021.

By decision of 1 September 2021, the Management Board of the BDB, as sole owner of the capital of "BBR Microfinance" EAD, increased the capital of the company with a cash contribution of BGN 7 million by issuing 70,000 new ordinary registered shares with a nominal value of BGN 100. The new shares are subscribed by the BDB and the capital increase is entered in the Commercial Register on 13.10.2021. In connection with the capital increase, the Articles of Association of "BBR Microfinance" EAD has been changed.

The total share capital of the Bank is less than the registered capital due to the losses in 2020 and 2021.

On 23 May 2022 the Minister of Innovation and Growth took a decision for partial covering the loss on the annual financial report for 2020 with the funds from the Reserve Fund and the additional reserves of the Bank. After the approval of the annual financial statements of BDB for 2021 the necessary actions will be taken to reduce the capital for which the sole owner of BDB is notified.

It is proposed that the bank's capital be reduced to BGN 1,100,000 thousand upon acceptance of the supposition that the Bank's net assets will exceed the registered capital after stating the loss for 2020 and for the reporting year 2021.

#### 4.5. ACTIVITY OF THE GROUP IN TERMS OF MICROCREDIT THROUGH BDB MICROFINANCE EAD

In 2021 BDB Microfinancing has provided financing to end customers under 117 loan and lease contracts in the amount of BGN 10,266 thousand.

As of 31 December 2021, the active loan and lease portfolio of the company amounts to BGN 29,049 thousand presented at amortised cost after impairment and consists of 520 loan and lease transactions. The company also has receivables from 12 associations/11 business centres and 1 non-profit association/ amounting to BGN 1 thousand after impairment.

The amount of the assets of BDB Microfinancing as of 31 December 2021 amounts to BGN 37,759 thousand.

The liabilities of BDB Microfinancing at the end of 2021 amount to BGN 21,929 thousand and consist of BGN 21,500 thousand residual amount under a revolving credit line contract with Bulgarian Development Bank EAD, excluding residual amount under a loan agreement with Bulgarian Development Bank EAD for indirect microfinancing with the support of the European Investment Fund and the European Progress Microfinance Facility of the European Union.

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The reported financial result for 2021 is positive – the profit before taxes amounts to BGN 15 thousand.

The total revenue of BDB Microfinancing in 2021 amounts to BGN 2,560 thousand and the interest income amounts to BGN 2,310 thousand, which represents 90% of the total revenue.

#### 4.6. ACTIVITY OF THE GROUP IN RESPECT OF GUARANTEE SCHEMES THROUGH NGF EAD

The National Guarantee Fund aims to provide guarantees for the benefit of small and medium-sized enterprises (SMEs), thereby facilitating businesses' access to finance.

##### 4.6.1. Own risk guarantee schemes

The first guarantee scheme of the NGF - **Guarantee scheme 2009-2013**, launched in 2009, with loans able to be included until February 2013. Under the first guarantee scheme 11 contracts with commercial banks were signed. Under the scheme the NGF issues loan guarantees to SMEs of up to BGN 500 thousand investment and working capital loans, as well as bank guarantees. The maximum term of guarantees is up to 10 years, and the NGF approves the inclusion of loans in the guaranteed portfolio on a case-by-case basis. During the period of inclusion of loans in the guaranteed portfolio, NGF has approved guarantees of BGN 168,000 thousand on loans for BGN 391,000 thousand. The total number of enterprises supported under the scheme is over 2,300. As of 31 December 2021, the approved amount of guarantees included in the portfolios of partner banks amounted to BGN 1,269 thousand. The carrying amount of the guaranteed debt from the Fund as of 31 December 2021 is BGN 290 thousand.

At the beginning of October 2015 to the beginning of January 2016, the **Guarantee Scheme 2015-2017** guarantee agreements with a total value of BGN 326,000 thousand have been signed between NGF EAD and 10 commercial banks. In 2016, the total guarantee limit was increased to BGN 379,000 thousand. Under the scheme, NGF guarantees up to 50% of the loan amount, but not more than BGN 1 million. The deadline for including loans in the guaranteed portfolio was March 31, 2017. Until the expiry of the deadline for inclusion of loans in the guaranteed portfolio - 31 March 2017, NGF EAD guaranteed loans at the amount of BGN 581,500 thousand, the guarantees are for the amount of BGN 258 080 thousand of 2,024 SMEs. As of 31 December 2021, the approved amount of guarantees included in the portfolios of partner banks amounts to BGN 0 thousand as in 2021 the scheme is completed.

In March and April 2017, guarantee agreements totalling BGN 328,000 thousand were signed between NGF EAD and 10 commercial banks. **The guarantee scheme 2017-2018** is a continuation of NGF 2015. The scheme guarantees up to 50% of the loan amount, but not more than BGN 1 million. Since the launch of the guarantee scheme until 31 December 2021, 3,000 SMEs have been supported, with a subsequent annexation of the total limit of funds granted to banks to include loans in the portfolio amounting to BGN 416,131 thousand. As of 31 December 2021, the approved amount of guarantees included in the portfolios of partner banks amounted to BGN 157,131 thousand and the amount of the guaranteed debt is BGN 88,662 thousand.

In the beginning of 2019, NGF started a procedure for selection of partner banks under a new **Guarantee scheme 2019-2020**. Eligible for inclusion are only new loans granted for investments and working capital. Under the scheme the NGF guarantees up to 50% of the amount of the loan but not more than BGN 1.5 million on the level of related parties. The term of inclusion of loans in the guarantee portfolio was until 30 September 2020. The guarantee is on portfolio basis and for amounts over BGN 500 thousand a preliminary written approval by the NGF is required. Under the guarantee scheme there is a maximum limit for payments for each guaranteed portfolio in the amount of up to 25%, and the NGF reserves the right to exclude loans from the guarantee portfolio, which are non- compliant with the terms of the scheme. The banks pay a guarantee fee on the basis of achieved volumes and the borrowers are exempt from fees under the guarantees of the NGF. At the end of 2020 agreements were signed with 6 banks in a maximum amount in the guarantee portfolio of BGN 244,000 thousand. As of 31 December 2020, the approved amount of the guarantees included in the portfolios of the partner banks amounts to BGN 159,524 thousand and the amount of the guaranteed debt is BGN 140,289 thousand. The number of SMEs which have been supported is 1,341.

**Guarantee scheme under the COSME Programme of the European Commission** – in December 2016, an agreement was signed between the European Investment Fund (EIF) and National Guarantee Fund EAD (NGF EAD), by virtue of which another EUR 40 million was ensured for financing Bulgarian small- and medium-sized enterprises under the COSME Programme of the European Commission. The funds have been provided with the support of the European Fund for Strategic Investment (EFSI), on which the Investment Plan for Europe (the “Juncker Plan”) is based.

EIF ensures a guarantee line of EUR 20 million, by which NGF will support an EUR 40 million financing to SMEs in Bulgaria that experience difficulties in ensuring collateral required. As of 31 December 2021, NGF EAD has signed agreements with five financial institutions.

As of 31 December 2021, 455 loans amounting to BGN 82,308 have been guaranteed. The amount of the guaranteed debt according to book value as of 31 December 2021 is BGN 23,323 thousand. 416 SMEs were supported.

#### **4.6.2. Guarantee schemes for third-party risk – risk free guarantees**

**The guarantee program in support of beneficiaries under Operational Programme Fisheries Sector Development 2007 – 2013 (DFSOP)** is a financial engineering instrument and a process for the issuance of guarantees to supplement the collateral on loans extended by banks to borrowers for the purpose of implementing projects approved under the following DFSOP measures:

Measure 1.3: Investments on board of fishing vessels and selectivity

Measure 2.1: Manufacturing investments in aquaculture

Measure 2.5: Inland fishing

Measure 2.6: Investments in the processing and marketing of fishery products and aquaculture

Measure 3.3: Investments in reconstruction and modernisation of fishing ports, landing sites and boat shelters.

And also under Priority axis 4: Sustainable Development of Fisheries Areas of projects of some of the beneficiaries under the Priority axes One, Two and Three and all beneficiaries under the Priority axis Four of DFSOP.

With the support of the scheme, projects valued at BGN 46,000 thousand were implemented, of which projects worth BGN 33,000 thousand were under measure 2.1 (79% of the measure's budget); under measure 2.6, projects worth BGN 12,000 thousand (77% of the measure's budget) were supported. Projects for BGN 500 thousand were supported under Measure 4.1. of Priority axis 4. 25 SMEs were supported. The book value of the guaranteed debt as of 31 December 2021 was BGN 207 thousand.

**The guarantee scheme in support of beneficiaries under Rural Development Programme 2007 – 2013 (RDP)** is a financial engineering instrument approved by the Eighth Amendment to the RDP and a process for the issuance of guarantees to supplement the collateral on loans extended by banks to borrowers for the purpose of implementing projects approved under Measure 121 Modernisation of Agricultural Enterprises, Measure 122 Improvement of the Economic Value of Forests, and Measure 123 Adding Value to Agricultural and Forestry Products of RDP of the Republic of Bulgaria (2007 – 2013).

As of 31 December 2021, applying a maximum amount of the guarantee coverage of 80%, NGF EAD has issued risk-free guarantees for the company and counter-guarantees on loans issued by partner banks for financing approved projects under the Rural Development Programme of the Republic of Bulgaria 2007-2013, amounting to BGN 185,606 thousand. The total amount of loans is BGN 238,112 thousand. The book value of the guaranteed debt as of 31 December 2021 was BGN 2,282 thousand.

The guarantee scheme in support of beneficiaries under **Rural Development Programmes 2007-2013, 2014 – 2020, and enterprises operating in the sectors of Crop and Animal Production - Guarantee scheme - MAF 2016-2018**, is a joint initiative with the MAF, which is implemented using funds released from the Guarantee Scheme under RDP 2007-2013 amounting to BGN 50 million. The issued guarantees by the NGF EAD under the programme are risk free for the company since the claims are paid at the expense of funds provided under the RDP. Under the guarantee scheme, agreements have been signed with 17 commercial banks and BDB Microfinancing EAD, a company within the BDB Group providing financing up to BGN 300 thousand.

In the first quarter of 2021 by decision of the Consultative committee of the programme the term for inclusion of loans in the guarantee portfolio, as well as the term of validity of the guarantees, has been extended. The deadline for inclusion of loans was

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changed to 30.06.2023 and the deadline for submitting payment requests by the partner banks is 28.02.2026.

As of 31 December 2021, by applying the maximum amount of the guarantee coverage of 50%, risk free guarantees for the NGF EAD, as well as counter-guarantees on loans, have been issued by partner banks for financing of approved projects under the Rural Development Programme of the Republic of Bulgaria 2014 - 2020 in the amount of BGN 106,957 thousand and the total amount of the loans is BGN 215,752 thousand.

As of 31 December 2021, the guaranteed loans are 25 and the total amount is BGN 9,542 thousand. The book value of the guaranteed debt as of 31 December 2021 was BGN 4,772 thousand. The number of SMEs that have been supported is 21.

#### **4.6.3. Financial result of NGF EAD**

The financial result after taxes of the National Guarantee Fund for 2021 is profit in the amount of BGN 2,605 thousand.

Based on the results of the application of the risk assessment test on the guarantee portfolio as of the end of 2021, the management of the NGF EAD adopted that the coverage with the expected credit losses of the portfolio should be increased from 1.58% for 2020 to 1.82% for 2021, in relation to the commitment assumed by the NGF EAD. On the basis of the risk assessment on the guarantee portfolio, the allocated provisions ensure adequate coverage of the expected future losses.

The operating income of the Fund in 2021 amounts to BGN 4,357 thousand (9% decrease compared to 2020, taking into consideration the uncertainties regarding the spread of Covid-19 pandemic), and is the result of two main sources:

- Interest income from the invested capital of the Fund in deposits and government securities in the amount of BGN 1,618 thousand;
- Income from commissions on issued guarantees amounting to BGN 2,728 thousand.

The main costs incurred by the Fund for its activity in 2021 are administrative expenses and depreciation/amortization expenses amounting to BGN 1,332 thousand.

During the period, net impairment of BGN 46 thousand on financial assets was reported. Expected credit losses on guarantee portfolios amounting to BGN 85 thousand were recognized.

#### **4.7. THE GROUP'S ACTIVITY THROUGH BDB LEASING EAD**

As of 31 December 2021, the assets of the company amount to BGN 62,858 thousand. The largest share is for the receivables under finance lease presented at net value after impairment is BGN 56,778 thousand, and there is an increase in the amount of total assets BGN 16,471 thousand compared to 2020.

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The book value of receivables under lease contracts as of 31 December 2021 was BGN 56,778 thousand, VAT included, compared to BGN 39,375 thousand for 2020 – a growth of 44% was reached compared to 2020. The reported payments for delivery of lease assets amount to BGN 1,973 thousand, VAT except (2020: BGN 824 thousand).

BDB Leasing uses a revolving credit line amounting to BGN 70 million from the Bulgarian Development Bank EAD for financing its core activities. The loan contract was signed on 13.11.2019 with repayment deadline 30.10.2030. On 02.07.2020 an annex was signed for a new /additional/ amount of BGN 30 million, thus the total amount of the loan from BDB was increased to BGN 50 million. The amount of the allowed loan is BGN 50 million as of 31.12.2020. In April 2021, an annex was concluded for new /additional/ EUR 20 million and the total amount of the loan granted by the BDB is increased to BGN 70 million. The signed financial lease contracts with counterparties are in accordance with the terms and conditions of the financing used and there is a balance between the asset and the liability.

The signed office rental contract and the leased car are stated as right-of-use assets under IFRS 16 Lease and as of 31 December 2021 their carrying amount is BGN 109 thousand (2020: BGN 69 thousand).

The liability amounts to BGN 44,224 thousand (2020: BGN 27,338 thousand) and includes BGN 43,291 thousand utilized portion under the loan contract from BDB, BGN 109 thousand liabilities under lease contracts, BGN 739 thousand payables to suppliers and customers, BGN 20 thousand provisions for off-balance sheet commitments and BGN 65 thousand other liabilities.

The total reported revenue in 2021 amounts to BGN 2,108 thousand and the main share of the revenue is interest income on lease contracts which is BGN 2,014 thousand (2020: BGN 775 thousand). The total reported expenses amount to BGN 2,523 thousand.

The net financial result for the period ending 31 December 2021 is a loss in the amount of BGN 415 thousand (2020 – negative financial result amounting to BGN 780 thousand), which is by 5% less than the loss for the period according to the planned budget.

#### **4.8. GROUP'S ACTIVITY THROUGH BDB FACTORING EAD**

The assets of BDB Factoring, mainly comprising receivables on factoring contracts as of 31.12.2021 are at the amount of BGN 10,875 thousand, the equity is BGN 2,000 thousand, and payables to banks (entirely to the Parent bank), used for the financing trade receivables, are at the amount of BGN 10,189 thousand. In 2021 the company reported revenue of BGN 1 million, of which BGN 394 thousand from taxes and BGN 606 thousand interest income.

The total reported expenses are at the amount of BGN 1,875 thousand, representing fees and commissions expenses related to research and insurance of payers under transactions, impairment and provision expenses, costs for hired services, costs for remuneration and social security, costs for rent of property and vehicle under operating lease and depreciation/amortization expenses.

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The financial result before taxes was a loss of BGN 874 thousand, due to the fact that the volume of the portfolio is still insufficient to provide enough income to cover the operational costs of the company, as well as expenses for impairment under factoring receivables formed at the end of the reporting period.

#### **4.9. THE GROUP'S ACTIVITY THROUGH CAPITAL INVESTMENTS FUND AD**

As of 31.12.2021, the registered capital in the Company has been fully paid in.

For 2021 the financial result of the Fund's activity is a loss of BGN 401 thousand.

For 2021 the Company reports revenue from fees and commissions in the amount of BGN 291 thousand and interest income on deposits - BGN 21 thousand. In the activity of the company is realized revenue from fees and commissions, formed by:

- remuneration under signed contracts for analysis of potential transactions in connection with investment projects /realized revenue BGN 10 thousand/;
- revenue in connection with investments under contracts for participation in the capital of commercial enterprises /BGN 281 thousand/.

The Fund's expenses for 2021 amount to BGN 715 thousand representing general and administrative expenses, of which BGN 89 thousand representing expenditure on administrative services, costs of economic and legal opinions, ongoing costs for bank commissions, costs of notarial fees and remuneration costs amounting to BGN 626 thousand.

The general and administrative expenses of the Fund for the same period of 2020 amount to BGN 398 thousand of which the expenses for remuneration are BGN 212 thousand.

#### **5 STRATEGY FOR THE GROUP'S DEVELOPMENT**

BDB, together with its subsidiaries, form BDB Group. In preparing the strategy, the management of the Bank and the subsidiaries form common goals, as each company participates in its implementation according to its specialization. The strategy is prepared on a group basis and approved by the Council of Ministers.

BDB – together with the Group companies – is a key instrument and a channel for conducting government economic policies, including in specifically targeted areas, regions, industries and social groups. The Bank and the companies actively collaborate with all government other state structures in order to ensure maximum impact of the public funds targeted on support of the economic development. The focus of the activity is pre-export, export and bridge financing.

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The activities of BDB Group are focused on establishing a viable and sustainable financial market for SMEs through the basic instruments of the Group – investment loans for projects, company loans, micro loans, working capital financing and credit lines, providing guarantees on direct portfolio - on BDB assets, and guarantees on commercial banks' portfolios of loans for SMEs, operating leases, equity, etc.

BDB and its subsidiaries operate in full transparency and apply the best banking and management practices. A core objective of the Bank is to reach the sectors of the economy and borrowers experiencing difficulties in accessing and obtaining financing, by providing financial solutions and products to overcome market imperfections.

In pursuing its mission, BDB – jointly with Group companies – supports government efforts for acceleration of economic growth in the country by means of providing expertise and performing activities in all areas of economic policies, facilitating the absorption of the EU structural funds, enhancing the export potential of the country, financing public and public-private projects or partnerships of strategic national or regional importance, incl. infrastructural projects, etc.

The main principle underlying the Group's activity is not to allow distortion of competition and displacement of the traditional commercial banks from the market. By compensating any existing market shortages in financing certain segments and clients, BDB and its subsidiaries contribute to adjusting their risk profile and further facilitate the increase of bank mediation and growth in credit volumes in the economy.

**The long-term goals of the Bank are closely related to its promotional activities and should not be limited to a medium-term framework. The goals include:**

- To improve, stimulate and develop the overall economic, export and technological potential of SMEs by providing financial programs and instruments that the market does not fully and sufficiently offer;
- To create an environment of support, commitment and inspiration for SMEs to meet economic challenges by consulting and training them for successful business;
- To support SMEs in their transition to carbon neutral and sustainable business operations by developing the debt and equity market for green investment and mobilizing private capital to mitigate lack of funding;
- To implement programs and instruments for co-financing public investments and projects that are a priority for the Bulgarian economy;
- To raise funds and manage programs from international financial institutions, banks and capital markets;
- To ensure access to sufficient and diverse funding for SMEs;
- To facilitate the access to financing for corporate innovation, technological modernisation and digitalisation of SMEs.

With regard to direct lending, the Group will further develop focused product lines related to SME support. To fulfil the objectives, priorities will be pre-export, export and bridge financing. Traditionally, the Group will continue to provide funding for small and

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medium-sized businesses with a longer loan period and relieved legal requirements for loan collateral.

BDB, together with the Group's companies, will interact with the operational programme management bodies in Bulgaria, identifying existing problems in the financing of specific measures and offering solutions for their removal, including specific forms for their financing. Consultations will be carried out at an accelerated pace, in order to adequately include the BDB Group in the overall model of public resource management, in support of the development of the country's economy. The Bank considers its participation in it as an essential step in increasing the effectiveness of measures to support the Bulgarian economy.

The goals of BDB Group have been expanded with the new updated Strategy 2022-2023. The updated Strategy 2022-2023 is in the process of coordination and adoption by the Ministry of Innovation and Growth and the Council of Ministers.

**The strategy and activities of BDB Group for the next 2 years adheres to the established long-term goals, but strictly follows the national priorities, based on three main pillars:**

- Sustainable economic development by reducing the carbon footprint and negative effects on the environment, and increasing the degree of circularity and resource efficiency;
- Digital transformation and technological equipment of the Bulgarian business to increase productivity, efficiency and competitiveness, and to promote the transition to Industry 4.0;
- Expanding export potential through accelerated and sustainable integration into European value and supply chains - supporting connectivity and catalysing investment in modern and smart business infrastructure.

**The Group's updated strategic priorities for 2022 - 2023 were redirected and aimed at faster recovery of SMEs, accelerating economic growth and job creation after the COVID-19 crisis. They include:**

- More loans for a wider range of micro and SMEs;
- Supporting vibrant, innovative, competitive SMEs, with the potential for integration into the European and global networks;
- Funding of business models with green transition, social and sustainable initiatives and services (aimed at and in line with selected goals for global sustainable development).

**To realise its priorities, BDB has set the following strategic goals:**

- To ensure access to sufficient and diverse funding for SMEs in partnership and complementarity, not in competition with commercial banks;
- To fund the export and internationalization of Bulgarian SMEs;
- To fund the transition of SMEs to green, circular and sustainable economy, including through projects for social infrastructure and preservation of cultural and historical heritage;

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- To facilitate the access to funds for technological modernisation, digitalization and corporate innovation of SMEs, including through online access to products and services.

In this period, BDB Group will adjust its activities to the dynamics of the business and economic recovery from the pandemic crisis, and of the consequences from the military turmoil in Europe. The Group will strive to meet the demands and needs of SMEs of funding, to deal with the negative economic effects and to create new sustainable business models.

In carrying out its activities, the BDB Group is guided by the principles of transparency, neutrality, profitability, efficiency, market compatibility and good banking practice. The main task of the Group during the period is to meet the needs of recovery and growth of the Bulgarian economy after the crisis and to add value to borrowers.

Through its financial and credit activities, BDB addresses the challenges of the crisis and takes measures to facilitate access to finance and the adequacy of financial resources. Through the instruments, BDB will seek to share risk with the private sector, seek easing of financial credit conditions and thus create strong incentives for other banks to lend to small and emerging companies.

The updated strategy 2022-2023 for the activities of the BDB Group is in line with the objectives of the SME promotion policy. The BDB Group will continue to support financially viable and economically sustainable projects in the new strategic period. During the period, the activities of the BDB Group will be in line with the dynamics of the phase of recovery of business and economy from the pandemic crisis, as well as to deal with the consequences of peace turmoil in Europe. The Group will strive to meet the demand and the need of SMEs for financing, to deal with the negative economic effects and to create new sustainable business models.

For the effective implementation of the above goals and objectives, Bulgarian Development Bank within the BDB Group relies on its status as a development bank and the ability to attract long-term cheaper resources from European multilateral banks, international financial institutions and international commercial banks.

Another source of external funding are the international capital markets. During the period BDB plans to use the opportunities offered by the institutions of the European Union for direct lending and issuing guarantees to other intermediary banks and/or final borrowers.

In the future, BDB Group will continue to offer funding for working capital, capital investments and export for small and medium-sized businesses. The Group offers flexible financial solutions and in line with the market demand that meet the specific requirements of the borrower and the funded project.

Information on the development of BDB Group's subsidiaries is disclosed in their individual annual financial statements for the 2021 financial year.

## **6 RISK AND RISK MANAGEMENT**

In managing its risk, the BDB Group applies policies and procedures based on best practices and appropriate to the nature and complexity of its activity. In the course of the ordinary activity, the Group is exposed to various financial risks, the occurrence of which

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may lead to losses and to deterioration of the financial stability of the institution. These risks are identified, measured and limited to acceptable levels by means of limits and restrictions that reflect the BDB Group's willingness to take specific risks in order to achieve its strategic objectives. The risk management process is important for the profitability and existence for the companies within the Group. The most significant risks, to which the financial group is exposed, are credit, market, liquidity and operational risks.

## 6.1. CREDIT RISK

The credit risk is the key risk to which Bulgarian Development Bank Group is exposed, and therefore, its management is a key priority of the Group's activity. The credit risk management is carried out in compliance with the BDB Act, and the effective statutory laws and regulations of the Republic of Bulgaria, regulating the credit activity, the established international norms and best banking practices. The BDB Group uses internal rating for the evaluation and management of the credit risk (incl. from counterparties) under the exposures. Bodies for monitoring, control and assessment of the quality of the credit portfolio have been created and are functioning at the Group. Procedures and mechanisms have been introduced for ongoing monitoring, recording and management of the credit portfolio, requiring periodic, and if necessary, extraordinary reports on the financial and legal status of each borrower and liable persons. When new circumstances are established, which may lead to a change in the risk profile of the borrowers, including increasing the risk of default of the credit exposure, adequate measures are undertaken, which take into account the risk profile of the debtor. When managing the credit risk, the BDB Group follows a system of internal Group limits by economic sectors, by instruments, as well as other credit limitations and thresholds for concentration, and the results from the monitoring of their compliance are reported to the competent bodies. The system of limits is reviewed and updated periodically.

## 6.2. MARKET RISK

In managing the currency risk, the BDB Group follows the principle of maintaining minimum open FX positions through the observing of established limits. The positions of the Group in various currencies, as well as the general FX position are monitored on a daily basis. The FX positions are not formed for speculative purposes, but are the consequence of the currency transactions, occurring in the course of the ordinary bank activity. These foreign exchange operations relate to the current financing needs of the position. In managing its assets and liabilities, due to the specifics of its financing, the BDB Group seeks to maintain these assets and liabilities in EUR or BGN. The Group's open FX position takes into account the terms and possibilities for netting the EUR and BGN positions in accordance with the applicable regulatory framework.

In managing interest rate risk, the BDB Group follows the principle of maintaining a balanced structure of its interest-sensitive assets and liabilities, seeking to maintain consistency between the frequency of change in interest on assets and liabilities, as well as a correlation between the applicable reference interest rates on assets and on the liabilities of the BDB Group. A system of limits for the maximum acceptable (quantitative) impact of various shock scenarios on the change in market interest rates on net interest income and the economic value of the Group's capital has been introduced. The internal

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limit framework mitigates the potential risk on expected future returns and the economic value of capital, within acceptable levels corresponding to the risk tolerance of the BDB Group. The interest rate risk assessment is carried out using a set of techniques including yield-based measurement, measurement of the economic value of capital, analysis of discrepancies, interest rate stress scenarios.

The assumption of risks when transacting on the money and capital markets is managed by a system of limits reflecting the risk profile of the investments. These limits are determined according to parameters of the portfolio, like counterparty, financial instrument, maturity, etc. The system of limits is periodically reviewed, while the compliance with the limits is subject to daily monitoring. The securities portfolio, created by the BDB Group in order to invest the available funds, is characterized by a relatively low interest rate risk and comprises government securities and securities issued by reliable institutions with high liquidity and credit quality. In 2021 the financial group did not maintain trade portfolio and was not subject to capital requirements for market risk from trading activities, in accordance with regulatory provisions.

### **6.3. LIQUIDITY RISK**

Liquidity risk management and control is carried out through day-to-day liquidity monitoring and management, maintaining access to sufficient liquidity to ensure the discrepancies between cash inflows and outflows at maturity intervals, both in a normal banking environment and in different liquidity-aggravated scenarios. The liquidity of BDB Group is managed by strictly monitoring the ratios, indicating the liquidity position by periods. The liquidity risk is measured by applying additional scenarios for the cash flows from operations. In addition, the liquid buffers of the Bank are measured and monitored, as well as the additional sources of financing upon market and idiosyncratic shocks. The main focus of liquidity management is to maintain an adequate level of liquidity buffer in accordance with the established limits and restrictions set according to the risk tolerance of the BDB Group.

### **6.4. OPERATIONAL RISK**

For operational risk management BDB Group applies a systematic approach covering the collection of objective information, timely identification of operational risk, its measurement (qualitative and quantitative), the identification of dependencies with other types of risk and the application of measures to limit its impact on the financial performance and on the capital of the Group. The operational risk is managed by strictly monitoring and registering all operational events occurring in the activity of the various units as a result of the processes within the Group identifying and managing the full range of operational risks. Operational events, which are more frequent, and the ones having great potential or real impact on the BDB's financial result, are subject to strict investigation and monitoring. They serve as the basis for the analysis of the operational risk in various scenarios, including operational risk stress tests. The operational risk is measurable and controllable, while a registry of the operational events is maintained and used as basis for analysis and improvement of the Bank's working processes and for minimizing the conditions, which could potentially lead to operational events and loss for the BDB Group. The necessary

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capital for operational risk is calculated by using the basis indicator approach pursuant to the applicable regulatory framework.

## 6.5. RECOVERY PLAN (DIRECTIVE 59/15.05.2014/EC)

BDB has developed a Recovery Plan of the BDB Group which is provided to BNB. At the end of the reporting year 2021 and as of the date of approval of this report there is a valid update of the document approved by decision of the MB №91/23.11.2021 and decision of SB №45/24.11.2021. The Recovery Plan of the BDB Group complies with the requirements of the Law on the Recovery and Resolution of Credit Institutions and Investment Firms, Law on Credit Institutions, Directive 2013/36/EU, Directive 2014/59/EU, Commission Delegated Regulation (EU) 2016/1075 of 23 March 2016 supplementing Directive 2014/59/EU and applicable guidelines of EBA. The Plan contains actions and measures that BDB may take to restore its financial position in the event of significant financial difficulties.

The Recovery Plan addresses the systemically important/critical functions of the BDB Group and sets out the recovery indicators - a system of indicators the Bank observes with the aim of early identification of potential situations which could jeopardize the financial performance of the institution.

The prerequisites for the implementation of the recovery measures set out in the Recovery Plan are described. Scenarios and recovery options are considered which, in the event of activation of the Recovery Plan, can be taken, as well as the internal communication and decision-making process. A communication action plan has been elaborated in case of activation of the Recovery Plan.

In addition, on the recommendation of the BNB since 2020 and 2021, a new section was added to the Plan, which analysed the realized and expected effects on the Bank and the Group following the COVID-19 crisis and the need to trigger recovery measures. New indicators have been added: in terms of combined buffer requirement (MREL) as well as new profitability indicators and the reference range of certain indicators have been revised, in accordance with the Regulator's requirements and market realities.

The Recovery plan is updated once a year and proposed for validation by the MB and SB of BDB. Furthermore, the Recovery Plan is updated in the event of a material change in the legal or organisational structure, activity or financial position of the Bank, or in the financial system in Bulgaria, which may have a significant impact on its effectiveness.

## 7 CONTROL ENVIRONMENT

Internal control in the BDB Group is a continuous process carried out by the management bodies and by persons engaged in internal control functions. Elements of internal control are systems for:

1. management control;
2. risk control;
3. reporting and information; and
4. internal audit

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The first three elements of the internal control system are within the competence and powers of the relevant authorities. The fourth element of internal control is a responsibility of the Group's internal audit.

The internal control of the Group is organised as an independent assessment of the legality of the banking transactions and is carried out by monitoring and verifying the financial, accounting and other operations, as well as how the powers of officials in decision-making are exercised. The internal control system of the BDB Group is subject to the requirement of economy, efficiency and reasonable sufficiency.

Internal control is carried out simultaneously as preventive, ongoing and subsequent control over the BDB Group's positions and its separate processes, activities and transactions. The general internal control over the activities of the Bank is performed by the Supervisory Board.

The organizational model of the risk management and control functions is developed in accordance with a model with three lines of protection. The main roles of the three lines of defence include:

The first line of defence covers risk management by business units and risk-taking units – divisions Corporate Banking, Investment Banking and Project Finance, External Programs, Non-performing Loans, Treasury, Financial Instruments. Their activity is supported by Legal Division, Credit Administration Division, Security division, Finance Division, Classified Information Division, Operations & Customer Service Division and MFI and Euro funds, who assess and analyse the implementation of internal and regulatory constraints and support decision-making activities in taking and managing risks. At this level, risk management is carried out by setting appropriate controls and procedures.

The second line of defence provides independent risk assessment, control and management by units performing control functions independent of risk units – divisions Risk, Compliance and Classified Information. Risk Division performs activities related to identification, management, measurement, control and reporting of risks, stress tests, monitoring of limits and reporting their implementation in accordance with the approved escalation procedures. Classified Information Division exercises control over the prevention of money laundering and terrorist financing. Compliance Division is responsible for the observance of the regulatory framework, including the adaptation of the internal regulatory framework and the organization of the processes in the BDB Group to the occurred and / or forthcoming changes. The second line of defence is organizationally independent of the first and carries out preventive and ongoing control.

The third line of defence is performed by the Internal Audit of the Group (IAG). It independently reviews all activities in the BDB Group, subject to independent evaluation, compared to the established system of internal rules and their adequacy, compared to the external regulatory environment, internal control mechanisms and risk management systems covering the activities of the Group. The weaknesses and deficiencies identified by it supports the functions of other levels of protection in the process of developing of internal rules and procedures in order to improve the effectiveness of risk management. IAG provides assurance to senior management on the effectiveness of risk management, internal control and governance, and the way in which the first and second lines achieve the objectives of risk management and control. The Internal Audit of the Group Division

provides overall confidence from the position of the highest level of independence in the organization, through direct subordination of the Supervisory Board.

Management assigns powers and responsibilities for the operating activity in line with a detailed internal normative set of documents, which are in conformity with the current national and European legislations, where in order to guarantee the relationships in accountancy and reporting, and various specialized committees, by hierarchy of authorities, were formed to the MB and SB of BDB.

The Bank has developed an internal set of documents, which includes policy and communications focused on ensuring that all employees understand the goals of the Bank, knows how individual actions are interconnected and contribute towards these goals, and who and how is reporting and what is their responsibility.

BDB has established an information system, including business processes related to it, providing the necessary quality and control of the financial accountability and communication.

The Bank's Audit Committee monitors the financial reporting processes, the effectiveness of the internal control systems and the effectiveness of the risk management systems; informs the management bodies of the Bank about the results of the statutory financial audit; controls the development and the change of accounting policies by the Bank and the subsidiaries of the Group; monitors the timely and reliable provision of financial information by subsidiaries in the preparation of the Bank's annual consolidated financial statements; discusses and adopts the annual report on the internal audit activity; monitors the statutory audit of the annual financial statements (separate and consolidated); gets acquainted with the audit strategy and the audit plan of the statutory audit; monitors the implementation of the audit plan by making recommendations to the Bank's management; reviews the drafts of the audit reports under Art. 59 and Art. 60 of the IFAA; verifies and monitors the independence of registered auditors; is responsible for the procedure for selecting the registered auditor and recommends his appointment; prepares an annual report and reports on its activities to the sole owner of the capital once a year and other responsibilities, detailed in the Statute of the Audit Committee.

## **8 BANK SUPERVISION AUTHORITIES PURSUANT TO THE BULGARIAN LEGISLATION**

In accordance with the requirements of the laws and regulations governing banking activities in the country, BDB should observe restrictions related to certain ratios in its separate and consolidated financial statements. As at 31.12.2021, BDB has complied with all regulatory requirements of the BNB and the Bulgarian legislation.

Effective 1 October 2020, pursuant to ECB Decision (EU) 2020/1015 of 24 June 2020 establishing close cooperation between the European Central Bank and the Bulgarian National Bank (ECB/2020/30), the Bank remained under direct supervision by the BNB in close cooperation with the ECB. The ECB's monitoring includes control on the implementation of the Common Supervisory Standards of the Single Supervisory Mechanism (SSM).

The main objectives of the SSM are to ensure the security and stability of the European banking system, to strengthen financial integration and stability, and to ensure

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consistent supervision. In 2020, the Bulgarian lev joined the Exchange Rate Mechanism II (ERM II) and together with the established close cooperation are a condition for Bulgaria's future membership of the Eurozone.

As of 1 October 2020, Bulgaria has joined the Single Resolution Mechanism, together with the accession to the Single Supervisory Mechanism and the beginning of close cooperation between the Bulgarian National Bank and the European Central Bank. In this regard, the Single Resolution Board has taken over the monitoring of the resolution planning process with regard to the Bank. European banking supervision, together with the Single Resolution Mechanism, are the two pillars of the EU Banking Union.

As part of BASEL III regulatory framework, as of 28 June 2021 "the net stable funding ratio" (NSFR) is applied with minimum regulatory requirement of 100%.

Information on it is reported by all credit institutions in Bulgaria (excluding branches of foreign banks from EU member states) on a quarterly basis, on an individual and consolidated basis. As of 31 December 2021, the aggregated for the banking system level of NSFR is 166%, and for BDB it is 131.2%.

The capital adequacy ratio on consolidated basis of the BDB Group as of 31 December 2021 was 36.04% (31 December 2020: 32.79%). The coverage of assets with capital buffers exceeds by many times the statutory requirements. Respectively, the aggregated data for the banking system for capital adequacy are: 22.62% (as of 31.12.2021) and 22.74% (as of 31.12.2020). BDB continues to maintain a good liquidity level. The liquidity coverage ratio (according to the definition of Regulation 575 /2013/EU, LCR) of the BDB Group is 473.9% as of 31 December 2021 (compared to 551.9% at the end of 2020). For the banking system the liquidity coverage aggregated ratio is 274.1% (as of 31.12.2021) and 279% (as of 31.12.2020).

## 9 INTERNATIONAL COOPERATION

BDB continues to develop successful partnerships with leading European and international financial institutions, including through participating in renowned associations. This cooperation enables the Bank to take advantage of the best banking practices, know-how, information on financial products, and also to participate in their development and implementation. BDB has direct access to general and specific information about the latest changes in the legislative framework at European level and its implementation in the area of the development banks and has the opportunity to participate in the process of negotiating these amendments. The membership in international specialized associations allows BDB to take part in seminars and meetings with the European Commission and its Directorates.

- BDB is a shareholder of the European Investment Fund (EIF) since 2003. At the end of 2020 EIF officially announced to its shareholders proposal for capital increase in order to ensure its programs and activities during the new programming period - 2021-2027 (including the implementation of the InvestEU program, further expanding the role of the EIF in the management of national and regional programs and undertaking risk-sharing adequate to the new economic conditions). The proposal was approved by EIF shareholders' decision in February 2021. **In august BDB bought two new shares in the EIF capital increase.**

- Since 2005 BDB is an active member of the European Association of Public Banks (EAPB).
- Since 2007, BDB is a full member of the Network of European Financial Institutions (NEFI), including representatives from 19 institutions from various European countries.
- In 2021, BDB continued its participation in the activity of the European Association of Long-term Investors (ELTI). BDB is a co-founder of this organization.
- In 2020 BDB has joined the International Network for Small and Medium-sized Enterprises (INSME). THE INSME is under the auspices of the Organisation for Economic Cooperation and Development (OECD). The association includes 61 institutions and organizations from 30 countries. The Bulgarian Development Bank and the Bulgarian Small and Medium Enterprises Promotion Agency **hosted the 17th Annual Meeting of the International Network for Small and Medium-sized Enterprises (INSME) under the title of Small and Medium-sized Enterprises: Drivers of Sustainable Recovery.**
- In 2021, BDB continued its membership in the French-Bulgarian Chamber of Commerce and Industry (CCIFB).
- In 2021, BDB continued its participation in the Interbank Association of China and the countries of Central and Eastern Europe.
- In 2021, BDB continued its participation as a member in the Central and Eastern European Chamber of Commerce (Singapore).

## 10 GOVERNANCE OF THE BDB GROUP

### 10.1. BANK GOVERNANCE

There were no changes in the main BDB corporate governance principles in 2021.

**Bulgarian Development Bank EAD** has a two-tier corporate governance structure, which consists of Supervisory Board (SB) and Management Board (MB).

#### Changes in the Supervisory Board in 2021:

By decision of the sole owner of the capital of BDB under the Protocol of 25 June 2021 Valentin Lyubomirov Mihov and Vassil Atanasov Shtanov were elected as members of the Supervisory Board of the Bank. This circumstance was entered in the Commercial Register and the register of non-profit legal entities on 7 July 2021. Mr. Valentin Lyubomirov Mihov was elected as chairman of the Supervisory Board of the Bank.

As of 31 December 2021, entry in the Commercial Register has been requested also of the decision of the sole owner of the capital of BDB under protocol of 27 May 2021, by which Velina Ilieva Burska and Mitko Emilov Simeonov are dismissed as members of the Supervisory Board of the Bank.

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On 13 January 2022 in the Commercial Register is entered the decision of the sole owner of the capital of BDB by which Velina Ilieva Burska and Mitko Emilov Simeonov are dismissed as members of the Supervisory Board of the Bank.

Changes in the Management Board in 2021 and 2022:

By decision of the Supervisory Board under Protocol No 18 of 30 June 2021, Vladimir Rashkov Gueorguiev, Tsanko Rumenov Arabadzhiev and Krum Georgiev Georgiev were elected as new members of the BDB Management Board. This circumstance was entered into the Commercial Register on 7 July 2021. By decision of the Management Board under Protocol No 44/30.06.2021, Mr. Vladimir Rashkov Gueorguiev and Mr. Tsanko Rumenov Arabadzhiev were empowered to represent and manage the Bank as executive directors. This circumstance was entered into the Commercial Register on 7 July 2021. Mr. Krum Georgiev Georgiev was elected as chairman of the Management Board.

On 14 July 2021 Nikolay Dimitrov Dimitrov and Panayot Iovov Filipov were deleted from the Commercial Register as members of the Management Board.

By decision of the Supervisory Board under Protocol No 28 of 6 June 2022 Mariana Dimitrova Petkova was elected as a member of the Management Board of Bulgarian Development Bank EAD. This circumstance was entered in the Commercial Register on 13 June 2022. By decision of the Supervisory Board under Protocol No 51/06.06.2022 Mrs. Mariana Dimitrova Petkova is authorized to represent and manage the Bank as Executive Director. This circumstance was entered in the Commercial Register on 13 June 2022. Mrs. Mariana Dimitrova Petkova is elected as Chairman of the Management Board.

By decision of the Supervisory Board under Protocol No 30 of 9 June 2022 Vladimir Rashkov Gueorguiev was released as a member of the Management Board of the Bank. Vladimir Rashkov Gueorguiev was deregistered from the Commercial Register as a member of the Management Board on 16 June 2022.

By decision of the Supervisory Board under Protocol No 31 of 9 June 2022 Jivko Ivanov Todorov was released as a member of the Management Board of the Bank effective as of 13 June 2022. The circumstance was entered in the Commercial Register on 23 June 2022.

Changes in the Statute of BDB in 2021:

By decision of the Minister of Economy under Protocol of 21 May 2021, amendments were made in the Statute of the Bulgarian Development Bank, most of the changes related to reflecting the change in ownership of the capital of the Bank (sole shareholder company). The amendments to the Statute, which explicitly state that the priority in the Bank's credit activity, should be indicated as essential for lending to export-oriented small and medium-sized enterprises with high added value. A restriction has been introduced for BDB to form exposures to one client or group of related clients whose total amount exceeds BGN 5 million, and this restriction does not apply to other credit institutions, the Council of Europe Development Bank, the European investment activity, the European Investment Fund, development banks from Member States of the European Union, as well as in the cases under para. 7 (when BDB implements specifically government-mandated programmes). A requirement has been introduced for exposures to a client or group of related clients whose amount exceeds BGN 1,000,000 to be approved by the Management Board by unanimous decision and only after the permission of the Supervisory Board.

By decision of the Minister of Economy under a protocol of 10 June 2021, new amendments were adopted in the Statute of Bulgarian Development Bank EAD, which are related to the number of the management and supervisory bodies of the Bank. According to the changes in the Statute, the Supervisory Board consists of three to seven persons, the Management Board consists of three to seven members.

By decisions of the Minister of Economy under protocol of 1 June 2021 and under protocol of 20 July 2021, new amendments have been adopted in the Statute of Bulgarian Development Bank EAD, under which the limit for exposures of more than BGN 5 million does not apply to the subsidiaries of the Bank. The Statute explicitly specifies that the Bank shall not form new exposures on an individual and consolidated basis to one client or group of related clients whose total amount exceeds the amount of BGN 5,000,000. It is also specified that the approval of credit transactions and changes to existing contracts is carried out in accordance with the Bank's current rules on credit activity, the Statute, and the applicable legislation.

These amendments to the Statute have been approved by the Bulgarian National Bank and have been entered into the Commercial Register and the register of non-profit legal entities under the lot of Bulgarian Development Bank EAD.

**As of 31 December 2021, and as of the date of approval the management report, the BDB's management and supervisory boards have the following composition:**

#### **10.2. SUPERVISORY BOARD OF BDB AS OF 31 DECEMBER 2021 AND AS OF THE DATE OF APPROVAL OF THIS REPORT:**

<b>SB as of 31.12.2021</b>	<b>SB as of the date of approval of the consolidated financial statements:</b>
<ul style="list-style-type: none"> <li>- Valentin Lyubomirov Mihov – Chairman of the SB</li> <li>- Vassil Atanasov Shtanov – Deputy chairman of the SB</li> <li>- Stamen Stamenov Yanev – Deputy chairman of the SB</li> <li>- Mitko Emilov Simeonov – Deputy chairman of the SB*</li> <li>- Velina Ilieva Burska – member of the SB*</li> </ul>	<ul style="list-style-type: none"> <li>- Valentin Lyubomirov Mihov – Chairman of the SB</li> <li>- Vassil Atanasov Shtanov – Vice chairman of the SB</li> <li>- Stamen Stamenov Yanev – Deputy chairman of the SB</li> </ul>

\*As of 31 December 2021, the decision of the sole owner of the capital of BDB under protocol of 27 May 2021, by which Velina Ilieva Burska and Mitko Emilov Simeonov are dismissed as members of the Supervisory Board of the Bank, is declared to be entered in the Trade Register. The decision of the sole owner of the capital of BDB by which Velina Ilieva Burska and Mitko Emilov Simeonov are dismissed as members of the Supervisory Board of the Bank is entered in the Trade Register on 13 January 2022.

#### **Valentin Lyubomirov Mihov - Chairman of the SB since 7 July 2021**

Valentin Mihov holds master's degrees in international Economic Relations from the MGIMO University and Business Administration from INSEAD. He has considerable experience in bank management. From 1999 to 2008 he was a consultant and junior

partner at the consulting firm McKinsey and managed projects at the largest banks in Bulgaria, Germany, and Russia. Between 2008 and 2017 he held senior management positions at Commerzbank in Germany, Sberbank Russia, Sberbank Europe in Austria, as well as at the supervisory boards of their subsidiaries in a number of countries in Eastern Europe. From 2018, he advised banks and companies as a consultant or independent member of the Board of Directors.

**Vassil Atanasov Shtonov – Deputy Chairman of the SB since 7 July 2021**

Vassil Shtonov holds a master's degree in Finance from the Massachusetts Institute of Technology in Cambridge. He has extensive experience in banking, telecommunications and energy. He has experience in a U.S. fund for risk investments in small and medium-sized enterprises in Los Angeles, at the McKinsey consulting firm as a junior partner, where he led teams of analysis and management of commercial banks, and at the Bear Stearns Investment Bank in New York. He was Chief Strategy and Marketing Officer of the cable company Blizoo. Caretaker Minister for Economy and Energy in 2014.

**Stamen Stamenov Yanev – Deputy Chairman of the SB since 26 August 2020**

Stamen Yanev holds a master's degree in Law from Sofia University "St. Kliment Ohridski". He specialized in European and English law at ASSER College Europe in the Netherlands, University of Cambridge, University College London, European University Institute (Italy). Yanev is a lawyer specialized in the field of mergers and acquisitions, as well as in the field of investments. His professional path passes through the major international consulting companies, including the Bulgarian divisions of some of the four largest audit firms in the world. Since 2015 he has been Executive Director of the Bulgarian Investment Agency. Deputy Minister of Economy from 2020 to 2021.

**Mitko Emilov Simeonov - Deputy Chairman of the SB since 27 November 2017 till 13 January 2022**

Mitko Simeonov holds a master's degree in law from the New Bulgarian University and a master's degree in International Economic Relations from the University of National and World Economy. He also holds a postgraduate degree in financial management from the University of National and World Economy. He was Deputy Executive and Executive Director of the Agency for Privatization and Post-Privatization Control.

**Velina Ilieva Burska – Member of the SB from 27 November 2017 till 13 January 2022**

Velina Burska holds a master's degree in economics and Organization of Internal Trade from the University of National and World Economy. From 2002 to 2017 she was the director of the Post-Privatization Control Directorate at the Agency for Privatization and Post-Privatization Control.

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### **10.3. BDB MANAGEMENT BOARD AS OF 31 DECEMBER 2021 AND THE DATE OF APPROVAL OF THIS REPORT**

#### **Management Board (MB)**

<b>MB as of 31.12.2021</b>	<b>MB as of the date of approval of the consolidated financial statements:</b>
<ul style="list-style-type: none"> <li>- Krum Georgiev Georgiev – Chairman of MB</li> <li>- Vladimir Rashkov Gueorguiev – member of the MB and executive director</li> <li>- Tsanko Rumenov Arabadzhiev - member of the MB and executive director</li> <li>- Jivko Ivanov Todorov – member of the MB and executive director</li> </ul>	<ul style="list-style-type: none"> <li>- Mariana Dimitrova Petkova- Chairman of the MB and executive director</li> <li>- Krum Georgiev Georgiev – member of the MB</li> <li>- Tsanko Rumenov Arabadzhiev – member of the MB and executive director</li> </ul>

#### **Mariana Dimitrova Petkova – Chairman of the MB and executive director since 13 June 2022**

Mariana Petkova has over 28 years of international experience in the banking system. She holds a bachelor's degree in social economic planning from the University of National and World Economy, where she also specializes in international marketing. She has exceptional expertise in the field of accounting policy and reporting, as well as in the construction and development of banking software. She has held management positions in the accounting departments of First Investment Bank and Procredit Bank. From 2006 to 2021 Mariana Petkova manages Procredit Bank. In 2008, she graduated from the Corporate Academy of Managers at Procredit academy in Frankfurt, Germany.

She has been consecutively executive director and member of the Management Board in the Bulgarian branch of the bank, and deputy chief executive director and chief executive director of Procredit Bank in Romania. She organizes skilfully the activity of optimization of the processes and cost structure in the bank, and controls the process of implementation of the business strategy and the design of a stable and quality customer base in the segment "Small and Medium-sized Enterprises".

#### **Krum Georgiev Georgiev – Member of the MB from 7 July 2021**

Krum Georgiev has a bachelor's degree in business management and a master's degree in Finance from the University of National and World Economy. His professional career includes 11 years of experience in banking and accumulated solid knowledge in the field of financial analysis and corporate governance. He was head of Project Finance Department at UBB, responsible for increasing the credit portfolio, monitoring the quality of the loan portfolio and structuring new transactions. He has also successfully development as an asset manager in the RES sector.

#### **Vladimir Rashkov Gueorguiev – Member of the MB and Executive Director from 7 July 2021 until 16 June 2022**

Vladimir Gueorguiev has more than 11 years of experience in the banking system, he has gone through all levels of development, with years of management experience as head of directorates and managements in several major commercial banks, as well as a member of the Management Board and Executive Director of banking institutions. He has proven

experience in the field of international banking activity and liquidity, international credit and correspondent relations, as well as in the field of rescuing banks with poor credit portfolios, dealer operations, documentary operations, liquidity, corporate finance and collection of problem loans. He participated in the consolidation teams of two major Bulgarian banks as responsible for the reunification in the field of international credit and correspondent relations and liquidity. Vladimir Gueorguiev specialized in finance and banking in Germany, Austria, Belgium, Luxembourg. He has more than 19 years of experience in the financial management of Bulgarian and foreign investments in different sectors of the economy. He organized Primary Public Offering and Bond Financing through BSE for several corporate structures.

**Tsanko Rumenov Arabadzhiev – Member of the MB and Executive Director since 7 July 2021**

Tsanko Arabadzhiev is a financial manager with 16 years of experience and an established presence in the banking, insurance and private sectors. His professional career began at UBB, where in the period 2005-2013 he underwent various levels of development in the field of retail banking, management of collective investment schemes and lending to small and medium-sized enterprises. In 2013 he joined the insurance company "UNICA", where for 5 years he was Director of Investment Management. His main responsibilities are related to the overall management of the company's cash flows, the preparation and implementation of asset management strategies so as to achieve optimal returns within the investment mandate. In addition, he led various projects related to the introduction of new products, costs and processes optimization, etc. Mr. Arabadzhiev's career continued as Chief Financial Officer of Nord Holding, and since 2019 he is part of the team of Pension Insurance Company Doverie, where he is responsible for the internal control of its investment activities and managed funds. Tsanko Arabadzhiev graduated from the University of International Economic Relations at the University of National and World Economy and holds a master's degree in Finance.

**Jivko Ivanov Todorov – Member of the Management Board and Executive Director from 14 April 2020 until 23 June 2022**

Jivko Todorov holds a master's degree in Accounting and Control from the University of National and World Economy, as well as an Executive MBA from Hult International Business School in London. His professional career began in 1997 at ING Bank – Sofia Branch, where he held successive positions as operational accountant, financial controller, Chief Financial Officer, and Member of the Management Board for Bulgaria. In the period 2012-2014 he was Chief Financial Officer and Member of the Management Board of Alfa Bank – Bulgaria Branch. From 2014 to March 2020, he was Chief Financial Officer and Member of the Management Board of First Investment Bank, where he was responsible for the resources Finance, Accounting, Investor Relations, Treasury and Financial Institutions, Correspondent Relations. Under his leadership, an internal transfer pricing policy and cost allocation model, as well as a model for calculating profitability at business line level, products and customers, was developed and implemented.

In 2021, the following members also participated in the composition of the Management Board:

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**Nikolay Dimitrov Dimitrov - Member of the Management Board and Executive Director from 06 October 2017 until 14 July 2021.**

Nikolay Dimitrov holds a Ph.D. in Economics from the University of National and World Economy (UNWE) with specializations "International Economic Relations" and "Finance". Between 2007 and 2015, he completed a number of additional courses and qualifications at the Judge Business School at Cambridge University (UK), the Investment Banking Institute (USA), among others. His banking career started at the end of 2003 and went through Raiffeisen Bank and United Bulgarian Bank.

He joined the Bulgarian Development Bank in July 2011, in January 2012 became Head of the Investment Banking and Project Finance Department, and since April 2013 he is Head of the Corporate Banking Division. Alongside, he has been an associated professor at the Department of International Economic Relations at UNWE over the period 2010-2017.

**Panayot Ivov Filipov – Member of the Management Board and Executive Director from 30 April 2020 until 14 July 2021.**

Panayot Filipov graduated from the University of National and World Economy with a master's degree in economics and has a specialization in stock markets at the University of Delaware in Bulgaria. In 1998 he was announced for Broker No 1 on the Bulgarian Stock Exchange with the highest number of trades of the year. He entered the banking sphere in 2001, and until 2008 he held positions in Economic and Investment Bank, DZI Bank, where he was also a member of the Management Board, as well as in Piraeus Bank Bulgaria. In 2012 he took over management functions at Municipal Bank. In 2014, Mr. Panayot Filipov was appointed a member of the Board of Directors of OZK Insurance, and in 2017 he became Executive Director and Member of the Management Board of the Bulgarian Export Insurance Agency (BAEZ). In April 2020, Mr. Filipov was elected Executive Director and Member of the Management Board of the Bulgarian Development Bank EAD.

Bulgarian Development Bank EAD is represented jointly by two executive directors or at least one executive director and procurator.

As of 31 December 2021, and at the date of approval of this report the Bank does not have a procurator.

**Contracts signed with related parties involved in the management and participation of the Bank's MB and SB members in other companies**

There are no contracts signed pursuant to Art. 240b of the Commercial Act between the members of the SB and MB or persons related to them, on one hand, and the Bank, on the other, which fall beyond the ordinary course of business, or which deviate significantly from the market conditions.

There are no material contracts of the Bank, which lead to action, are amended, or terminated, due to change in the control of the Bank, when performing a compulsory public procurement procedure. As far as there is a legal restriction regarding the acceptable range of shareholders of BDB, pursuant to the BDBA, no such contracts are expected to be concluded.

BDB does not have practice and has not concluded agreements between the BDB and the management bodies or employees for the payment of compensation upon resignation

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or dismissal without legal grounds thereof, or upon terminating the legal employment relationships by reasons related to tender offers.

A participation, pursuant to Art. 247, Para. 2, item 4 of the Commercial Act, of members of the SB and MB in commercial companies as general partners holding more than 25 per cent of the capital of another company, as well as their participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows (as of 31 December 2021):

**I. With respect to members of the SB of the Bank (composition as of 31 December 2021 and as of the date of approval of this report):**

**Valentin Lyubomirov Mihov**, Chairman of the SB of the BDB since 7 July 2021

Participation in the management of commercial companies:

- First Ukrainian International Bank – member of the Supervisory Board.

Participation in the capital of commercial companies:

- Valor Advisors EOOD, UIC: 204708828 – ownership of more than 25% of the capital).

**Vassil Atanasov Shtonov** – Deputy Chairman of the Supervisory Board of BDB since 7 July 2021

Participation in the management of commercial companies:

- AMC Directors EOOD, UIC: 205674040 – Managing Director;
- Re-life Clothing, UIC: 206181417 – Managing Director.

Participation in the capital of trade companies or cooperatives, including as general partner – none.

**Stamen Stamenov Yanev** – Deputy Chairman of the SB since 26 August 2020

- Participation in the management of trade companies:
- State Enterprise "Management and Administration of Dams", UIC: 205756975, Member of the Management Board;
- BDB Microfinancing EAD, UIC: 201390740 – Member of the Board of Directors until 5 August 2020.

Participation in the capital of trade companies or cooperatives, including as general partner – none.

**Mitko Emilov Simeonov** – member of SB of BDB from 21.11.2017 to 13.01.2022

He has no participations in the capital and management of other companies.

**Velina Ilieva Burska** – member of SB of BDB from 21.11.2017 to 13.01.2022

She has no participations in the capital and management of other companies.

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**II. With respect to members of the MB of the Bank (composition as of 31 December 2021 and as of the date of approval of this report):**

**Mariana Dimitrova Petkova** – Chairman of the MB and Executive Director since 13 June 2022.

Participation in the management of other commercial companies:

- BDB Microfinancing EAD, UIC: 201390740 – Member of the Board of Directors since 23 June 2022.

Participation in the share capital of commercial entities or cooperatives, including as general partner- none.

**Tsanko Rumenov Arabadzhiev** – Executive Director and Member of the MB of Bulgarian Development Bank EAD since 7 July 2021.

Participation in the management of commercial companies:

- Capital Investments Fund AD, UIC: 205322014, as Member of the Board of Directors;
- BDB Factoring EAD, UIC 205566082, as Member of the Board of Directors.

Since 22 September 2021 Tsanko Arabadzhiev has been elected member of the Supervisory Board of the Three Seas Investment Fund.

Participation in the share capital of commercial entities or cooperatives, including as general partner- none.

**Krum Georgiev Georgiev** – Member of the Management Board of Bulgarian Development Bank EAD from 7 July 2021

Participation in the management of commercial companies:

- BDB Leasing AD, UIC: 205565411 – as Member of the Board of Directors;
- BDB Factoring EAD, UIC 205566082, as Member of the Board of Directors.

Participation in the capital of trade companies or cooperatives, including as general partner – none.

**Vladimir Rashkov Gueorguiev** – Executive Director and Member of the MB of Bulgarian Development Bank EAD from 7 July 2021 until 16 June 2022.

Participation in the management of commercial companies:

- BDB Microfinancing EAD, UIC201390740 – member of Board of Directors – since 23 August 2021 until 23 June 2022.

Participation in the capital of trade companies or cooperatives:

- Debtnet EAD, UIC: 200817666 – sole owner of the capital;
- Rosa Organica OOD, UIC: 131389390 – partner.

**Jivko Ivanov Todorov** – Executive Director and Member of the MB of BDB from 14 April 2020 until 23 June 2022.

Participation in the management of commercial companies:

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- BDB Leasing EAD, UIC: 205565411, a subsidiary of the Bank, as Chairman of the Board of Directors from 20 May 2020 until 23 August 2021;
- National Guarantee Fund EAD, UIC: 200321435, a subsidiary of the Bank, as Chairman of the Board of Directors since 20 May 2020 until 23 June 2022.

Participation in the share capital of commercial entities and cooperatives, including general partner - none.

**Nikolay Dimitrov Dimitrov** – Executive Director and member of the MB of BDB from 6 October 2017 until 14 July 2021.

Participation in the management of commercial companies:

- BDB Microfinancing EAD, UIC: 201390740, subsidiary of the Bank, Vice-chairman of the Board of Directors – until 20 May 2020;
- Capital Investment Fund AD, UIC: 205322014, subsidiary of the Bank, member of the Board of Directors – until 20 August 2021;
- BDB Leasing EAD, UIC: 205565411, subsidiary of the Bank, member of the Board of Directors - until 20 May 2020;
- BDB Factoring EAD, UIC: 205566082, subsidiary of the Bank, member of the Board of Directors – until 3 June 2020.

Participation in the capital of trade companies or cooperatives, including as general partner – none.

**Panayot Ivov Filipov** – Executive Director and member of the MB of BDB from 30 April 2020 until 14 July 2021.

Participation in the management of commercial companies:

- BDB Microfinancing EAD, UIC: 201390740, subsidiary of the Bank, chairman of the Board of Directors – from 20 May 2020 until 30 August 2021;
- BDB Factoring EAD, UIC: 205566082, subsidiary of the Bank, chairman of the Board of Directors – from 20 May 2020 until 16 September 2021.

Participation in the capital of trade companies or cooperatives, including as general partner – none.

## 10.4 MANAGEMENT OF THE SUBSIDIARIES

As of 31 December 2021, BDB is the equity owner of the following subsidiaries:

Sole owner of:

- National Guarantee Fund EAD, UIC: 200321435
- BDB Microfinancing EAD, UIC: 201390740;
- BDB Leasing EAD, UIC: 205565411;
- BDB Factoring EAD, UIC: 205566082;
- Trade Center Maritsa EOOD, UIC: 115619162.

**Participates jointly with NGF AD in the capital of:**

- Capital Investments Fund AD, UIC: 205322014, as the registered capital is allocated as follows (BDB holds 84.62% of the company's capital and NGF holds 15.38%).

As of 31 December 2021, exercises control over Cohofarm OOD<sup>9</sup>, UIC 201807408, by virtue of exercised rights under the pledge of commercial enterprise. In 2021 the Bank acquired the main production assets of the company in the amount of approximately BGN 2.5 million.

Changes in the management bodies of the subsidiaries are set out in section 0. Significant changes in the management bodies and statutes of the subsidiaries since the beginning of 2021 until the date of approval of this report.

#### **10.4.1. NATIONAL GUARANTEE FUND EAD (NGF)**

NGF EAD has a one-tier management system - Board of Directors, consisting of three members. As of 31 December 2021 and at the date of approval of this report the BoD members are:

<b>Board of Directors as of 31.12.2021</b>	<b>Board of Directors as of the date of approval of the consolidated annual financial statements:</b>
<ul style="list-style-type: none"> <li>- Jivko Ivanov Todorov – Chairman of the Board of Directors from 20.05.2020 to 23.06.2022;</li> <li>- Todor Lyudmilov Todorov – Executive Director and Deputy Chairman of the Board of Directors from 20.05.2020;</li> <li>- Zaharina Damyanova Todorova – Member of the Board of Directors from 20.05.2020;</li> <li>- Deyan Petrov Kalapchiev – Member of the Board of Directors from 27.09.2021.</li> </ul>	<ul style="list-style-type: none"> <li>- Todor Lyudmilov Todorov – Executive Director and Deputy Chairman of the Board of Directors from 20.05.2020;</li> <li>- Zaharina Damyanova Todorova – Member of the Board of Directors from 20.05.2020;</li> <li>- Deyan Petrov Kalapchiev – Member of the Board of Directors from 27.09.2021.</li> </ul>

The company is represented jointly by any two of the members of the Board of directors.

The members of the BD of NGF EAD do not hold any shares of the Fund, nor do they have any special rights on the acquisition of such shares.

There are no contracts signed pursuant to Art. 240b of the Companies Act between the members of the BD of NGF EAD or persons related to them, on one hand, and the Company on the other, which fall outside the scope of the company's ordinary activity, or which significantly deviate from market conditions.

The participations, pursuant to Art. 247, Para. 2, item 4 of the Commercial Act, of BD members of NGF in commercial companies as general partners holding more than 25 per cent of the capital of another company, as well as their participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows:

<sup>9</sup> Cohoram OOD is not part of the strategic business model of the BDB Financial Group.

**Todor Lyudmilov Todorov** – Executive Director and Deputy Chairman of the Board of Directors as of 20.05.2020

Participation in the management of commercial companies:

- Glenridge Capital EOOD, UIC 205578775, managing director.

Participation in the capital of trade companies:

- Glenridge Capital EOOD, UIC 205578775, sole owner of capital;
- Hobo Bulgaria OOD, UIC 205420451, partner - 15%.

**Jivko Ivanov Todorov** – Chairman of the Board of Directors of NGF since 20 May 2020 until 23 June 2022.

Participation in the management of commercial companies:

- Bulgarian Development Bank EAD, Executive Director and Deputy Chairman of the Board of Directors since 14 April 2020 until 23 June 2022.

Participation in the share capital of commercial entities or cooperatives, including as general partner - none.

**Zaharina Damyanova Todorova** – Member of the Board of Directors of NGF as of 20.05.2020

Participation in the management and in the share capital of commercial entities - none.

**Deyan Petrov Kalapchiev** - Member of the Board of Directors of NGF since 27.09.2021

Participation in the management of commercial companies:

- G&L Properties OOD, UIC: 175172659, managing director
- Capital Alliance EOOD, UIC: 175172627, managing director.

Participation in the share capital of commercial entities:

- Capital Alliance EOOD, UIC: 175172627, sole owner of capital;
- G&L Properties OOD, UIC: 175172659, partner holding 50% of the share capital.

#### **10.4.2. BDB MICROFINANCING EAD**

BDB Microfinancing has a one-tier management system - Board of Directors, consisting of three to five members. As of 31 December 2021 and at the date of approval of this report the BoD members are:

<b>Board of Directors as of 31.12.2021</b>	<b>Board of Directors as of the date of approval of the consolidated annual financial statements:</b>
<ul style="list-style-type: none"> <li>- Vladimir Rashkov Gueorguiev – Chairman of the Board of Directors from 23.08.2021 to 23.06.2022;</li> <li>- Iliya Radkov Komitov – Member of the Board of Directors from 28.08.2020;</li> </ul>	<ul style="list-style-type: none"> <li>- Mariana Dimitrova Petkova – Chairman of the Board of Directors from 23.06.2022;</li> <li>- Iliya Radkov Komitov – Member of the Board of Directors from 28.08.2020;</li> </ul>

<ul style="list-style-type: none"> <li>- Boyan Stefanov Byanov – Member of the Board of Directors from 30.08.2021;</li> <li>- Ivana Borisova Tsaneva – Executive Director and Deputy Chairman of the Board of Directors from 20.05.2020.</li> </ul>	<ul style="list-style-type: none"> <li>- Boyan Stefanov Byanov – Member of the Board of Directors from 30.08.2021;</li> <li>- Ivana Borisova Tsaneva – Executive Director and Deputy Chairman of the Board of Directors from 20.05.2020.</li> </ul>
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The Company is represented by either two of the members of the Board of Directors, jointly. The Procurator may represent the Company only jointly with either one of the members of the Board of Directors.

**In 2021 the following members have participated in the Board of Directors:**

**Panayot Iov Filov** – Chairman of the Board of Directors from 20 May 2020 to 30 August 2021

**Angelina Georgieva Angelova** – Member of the Board of Directors from 20 May 2020 to 30 August 2021

There are no contracts signed pursuant to Art. 240b of the Commercial Act between the members of the BD and/or individuals related to them, on one hand, and the Company on the other, which fall outside the scope of the Company's ordinary activity, or which significantly deviate from market conditions.

The participation, pursuant to Art.247, Para.2, item 4 of the Commercial Act, of members of the BD of BDB Microfinancing EAD in trade companies as general partners, holding more than 25 % of the capital of another company, as well as participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows:

**Mariana Dimitrova Petkova** – Chairman of the Board of Directors from 23. 06.2022

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, UIC: 121856059 – Chairman of the Management Board and Executive Director since 13 June 2022

Participation in the capital of trade companies – none.

**Vladimir Rashkov Gueorguiev** – Chairman of the Board of Directors since 23 August 2021 until 23 June 2022.

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, UIC: 121856059 – Member of the Management Board and Executive Director since 7 July 2021.

Participation in the capital of trade companies or cooperatives:

- Debnet EAD, UIC: 200817666 – sole owner of the capital;
- Rosa Organica OOD, UIC: 131389390 – partner.

**Boyan Stefanov Byanov** – Member of the Board of Directors since 30 August 2021.

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- Participation in the capital or management of trade companies – none.

**Panayot Ivov Filipov** – Chairman of the Board of Directors from 20 May 2020 to 30 August 2021;

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, UIC: 121856059 – Executive Director and Member of the Management Board from 30 April 2020 until 14 July 2021;
- BDB Factoring EAD, UIC: 205566082, subsidiary of the Bank, Chairman of the Board of Directors from 20 May 2020 until 16 September 2021.

Participation in the capital of trade companies – none.

**Ivana Borisova Tsaneva** – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020

Participation in the management of trade companies – none.

Participation in the capital of trade companies – none.

**Angelina Georgieva Angelova** – Member of the Board of Directors from 20 May 2020 to 30 August 2021;

Participation in the management of trade companies:

- AFE EOOD, UIC: 204261633, Managing Director.

Participation in the capital of trade companies:

- CODE Broadcasting Group (TRANSTROY AMB) EOOD, UIC: 205276652, sole owner of the capital until 16 April 2021.

**Iliya Radkov Komitov** – Member of the Board of Directors since 28 August 2020.

Participation in the management of trade companies:

- Brand Boys OOD, UIC: 203557782, Managing Director;
- SENMON EOOD, UIC: 202994314, Managing Director.

Participation in the capital of trade companies:

- Brand Boys OOD, UIC: 203557782, partner;
- SENMON EOOD, UIC: 202994314, sole owner of the capital.

#### **10.4.3. *CAPITAL INVESTMENTS FUND AD (CIF)***

Bulgarian Development Bank EAD holds 84.62% of the capital of Capital Investments Fund AD, UIC: 205322014, and 15.38% of the Company's capital is owned by the National Guarantee Fund EAD.

CIF AD has a one-tier management system - Board of Directors, consisting of three members. As at the end of 2021 and as at the date of approval of this report the Board of Directors consists of the following members.

##### **Board of Directors:**

**Tsanko Rumenov Arabadzhiev** - Chairman of the Board of Directors since 20 August 2021.

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**Stefan Stefanov Tamnev** – Executive Director and Vice Chairman of the Board of Directors since 5 August 2021.

**Krasimir Tanev Atanasov** – Member of the Board of Directors since 5 August 2021.

**In 2021 the following members participated in the Board of Directors:**

**Tsvetomir Georgiev Tsanov** - Member of the Board of Directors from 20 May 2020 until 26 November 2021.

**Nikolay Dimitrov Dimitrov** – Chairman of the Board of Directors and Executive Director from 20 May 2020 to 20 August 2021.

**Tihomir Gochev Chemshirov** – Vice Chairman of the Board of Directors from 20 May 2020 to 14 September 2021.

From 21 August 2020 until 6 December 2021 the company has an authorized procurator – Angel Penev Hadzhiev.

The company is represented by either two of the members of the Board of Directors. The Procurator may represent the Company only jointly with either one of the members of the Board of Directors of CIF.

There are no contracts signed pursuant to Art. 240b of the Commercial Act between the members of the BD and/or individuals related to them, on one hand, and the Company on the other, which fall outside the scope of the Company's ordinary activity, or which significantly deviate from market conditions.

The participation, pursuant to Art. 247, Para.2, item 4 of the Commercial Act, of members of the BD of Capital Investments Fund AD in trade companies as general partners, holding more than 25% of the capital of another company, as well as participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows:

**Tsanko Rumenov Arabadzhiev** - Chairman of the Board of Directors since 5 August 2021

Participation in the management of trade companies:

- Bulgarian Development Bank EAD – Executive Director and Member of the management Board;
- BDB Factoring EAD, UIC: 205566082, subsidiary of the Bank – Member of the Board of Directors.

Since 22 September 2021 Tsanko Arabadzhiev has been elected member of the Supervisory Board of the Three Seas Investment Fund.

Participation in the capital of trade companies or cooperatives, including as general partner – none.

**Stefan Stefanov Tamnev** – Executive Director and Vice Chairman of the Board of Directors since 5 August 2021

Participation in the management of trade companies: none.

Participation in the capital of trade companies:

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- RM FRUIT OOD, UIC 206485936, partner.

**Krasimir Tanev Atanasov** – Member of the Board of Directors since 5 August 2021

Participation in the management of trade companies:

- Primus EOOD, UIC: 175080997 – Managing Director;
- Omega Trading Partners OOD, UIC: 175048191 – Managing Director;

Participation in the capital of trade companies:

- Primus EOOD, UIC: 175080997 – sole owner of the capital.
- Omega Trading Partners OOD, UIC: 175048191 – partner;

**Nikolay Dimitrov Dimitrov** – Chairman of the Board of Directors and Executive Director from 20 May 2020 to 20 August 2021

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, UIC: 121856059, Executive Director and Member of the MB of the Bank until 14 July 2021;
- BDB Microfinancing EAD, UIC: 201390740, subsidiary of the Bank, Vice Chairman of the Board of Directors until 20 May 2020;
- BDB Leasing EAD, UIC: 205565411, subsidiary of the Bank, Member of the Board of Directors until 20 May 2020;
- BDB Factoring EAD, UIC: 205566082, subsidiary of the Bank, Member of the Board of Directors until 3 June 2020.

Participation in the capital of trade companies – none.

**Tihomir Gochev Chemshirov** – Vice Chairman of the Board of Directors from 20 May 2020 to 14 September 2021

Participation in the management of trade companies: none.

Participation in the capital of trade companies – none.

**Tsvetomir Georgiev Tsanov** – Member of the company's Board of Directors from 20 May 2020 until 26 November 2021.

Participation in the management of trade companies:

- TMI BULGARIA EOOD, UIC: 175330187 - Managing Director;
- M2 PROM AD, UIC: 206194254, Member of the Board of Directors until 4 January 2022.

Participation in the capital of trade companies:

- TMI BULGARIA EOOD, UIC: 175330187 – sole owner of the capital.

#### **10.4.4. BDB LEASING EAD (BDB LEASING)**

BDB Leasing has a one-tier management system - Board of Directors, consisting of three to five members. As at the end of 2021 and as at the date of approval of this report the Board of Directors consists of the following members:

##### **Board of Directors:**

**Krum Georgiev Georgiev** – Chairman of the Board of Directors since 23 August 2021;

**Emil Valkanov Valkanov** – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020;

**Antonia Hristoforova Dobreva** – Member of the Board of Directors since 20 May 2020;

**Jivko Ivanov Todorov** - Chairman of the Board of Directors since 20 May 2020 until 23 August 2021.

The company has an authorized procurator – **Ivaylo Kirilov Popov** since 1 June 2020.

The Company is represented by either two of the members of the Board of Directors, jointly. The Procurator may represent the Company only jointly with either one of the members of the Board of Directors of BDB Leasing.

There are no contracts signed pursuant to Art. 240b of the Commercial Act between the members of the BD and/or individuals related to them, on one hand, and the Company on the other, which fall outside the scope of the Company's ordinary activity, or which significantly deviate from market conditions.

The participation, pursuant to Art. 247, Para.2, item 4 of the Commercial Act, of members of the BD of BDB Leasing EAD in trade companies as general partners, holding more than 25% of the capital of another company, as well as participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows:

In 2021 the following participated in the Board of Directors:

**Krum Georgiev Georgiev** – Chairman of the Board of Directors since 23 August 2021.

Participation in the management of trade companies:

- Bulgarian Development Bank EAD - Member of the Management Board;
- BDB Factoring EAD, UIC: 205566082, subsidiary of the Bank – Member of the Board of Directors.

Participation in the capital of trade companies or cooperatives, including as general partner – none.

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**Jivko Ivanov Todorov** – Chairman of the Board of Directors from 20 May 2020 to 23 August 2021

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, UIC: 121856059, Executive Director and Member of the Management Board since 14 April 2020 until 23 June 2022;
- National Guarantee Fund EAD, UIC: 200321435, Chairman of the Board of Directors from 20 May 2020 until 23 June 2022.

Participation in the capital of trade companies, including as general partner – none.

**Emil Valkanov Valkanov** – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020.

Participation in the management of trade companies – none.

Participation in the capital of trade companies – none.

**Antonia Hristoforova Dobreva** – Member of the Board of Directors since 20 May 2020.

Participation in the management of trade companies – sole owner of the capital of Optima Asset EOOD.

Participation in the capital of trade companies – none.

**Ivaylo Kirilov Popov** – procurator since 1 June 2020.

Participation in the management of trade companies – none.

Participation in the capital of trade companies- none

- Vzeh EOOD, UIC: 203745229, partner – until 2 June 2020.

#### **10.4.5. BDB FACTORING EAD (BDB FACTORING)**

BDB Factoring EAD has a one-tier management system - Board of Directors, consisting of three to five members. As at the end of 2021 and as at the date of approval of this report the Board of Directors consists of the following members:

##### **Board of Directors:**

**Tsanko Rumenov Arabadzhiev** – Chairman of the Board of Directors since 16 September 2021;

**Krum Georgiev Georgiev** – Member of the Board of Directors since 16 September 2021.

**Georgi Vanyushev Lilyanov** – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020;

The Company is represented by either two of the members of the Board of Directors, jointly.

##### **In 2021 the following members participated in the Board of Directors:**

**Panayot Ivov Filipov** – Chairman of the Board of Directors from 20 May 2020 to 16 September 2021;

**Todor Hristov Gunchev** – Member of the Board of Directors from 3 June 2020 until 16 September 2021.

There are no contracts signed pursuant to Art. 240b of the Commercial Act between the members of the BD and/or individuals related to them, on one hand, and the Company on the other, which fall outside the scope of the Company's ordinary activity, or which significantly deviate from market conditions.

The participation, pursuant to Art. 247, Para.2, item 4 of the Commercial Act, of members of the BD of BDB Factoring EAD in trade companies as general partners, holding more than 25% of the capital of another company, as well as participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows:

**Tsanko Rumenov Arabadzhiev** – Chairman of the Board of Directors since 16 September 2021;

Participates in the management of trade companies:

- Bulgarian Development Bank EAD – Executive Director and Member of the Management Board;
- Capital Investments Fund AD, UIC: 205322014, subsidiary of the Bank – Chairman of the Board of Directors.

Participation in the capital of trade companies or cooperatives – none.

Since 22 September 2021 Tsanko Arabadzhiev has been elected member of the Supervisory Board of the Three Seas Investment Fund.

Participation in the capital of trade companies or cooperatives, including as general partner – none.

**Krum Georgiev Georgiev** – Member of the Board of Directors since 16 September 2021

Participates in the management of trade companies:

- Bulgarian Development Bank EAD – Member of the Management Board;
- BDB Leasing EAD, UIC: 205565411, subsidiary of the Bank – Chairman of the Board of Directors.

Participation in the capital of trade companies or cooperatives, including as general partner – none.

**Panayot Ivov Filipov** – Chairman of the Board of Directors from 20 May 2020 to 16 September 2021

Participates in the management of trade companies:

- Bulgarian Development Bank EAD, UIC: 121856059, Executive Director and Member of the MB from 30 April 2020 until 14 July 2021;
- BDB Microfinancing EAD, UIC: 201390740, subsidiary of the Bank, Chairman of the Board of Directors from 20 May 2020 until 30 August 2021.

Participation in the capital of trade companies – none.

**Georgi Vanyushev Lilyanov** – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020

Participation in the management of trade companies – none.

Participation in the capital of trade companies – none.

**Todor Hristov Gunchev** – Member of the Board of Directors from 3 June 2020 to 16 September 2021

Participation in the management of trade companies – none.

Participation in the capital of trade companies – none.

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In 2021, there were no material contracts concluded by the BDB Group, which lead to action, are amended, or terminated, due to changes in the control or as a result of performing a compulsory public procurement procedure, and no such contracts are expected to be concluded.

## **11 TRANSACTIONS WITH COMPANIES UNDER JOINT CONTROL OF THE STATE**

The owner of BDB is the Bulgarian state. Transactions with companies under the common control of the State are disclosed in Note 39 to the consolidated financial statements of the BDB Group for 2021.

## **12 EVENTS AFTER THE REPORTING PERIOD FOR THE YEAR ENDING ON 31 DECEMBER 2021.**

No adjusting events or significant non-adjusting events occurred between the date of the consolidated financial statements and the date of their approval for issue, other than the following non-adjusting events:

### **Change in the principal of the Bulgarian Development Bank EAD**

With an amendment to the Law on Bulgarian Development Bank, effective since 18 March 2022, the rights of the state as sole owner of the capital of the Bank are exercised by the Minister of Innovation and Growth.

### **Change in the Supervisory Board of the Bulgarian Development Board EAD**

On 13 January 2022 in the Commercial Register is entered the decision of the sole owner of the capital of BDB by which Velina Ilieva Burska and Mitko Emilov Simeonov are dismissed as members of the Supervisory Board of the Bank.

### **Changes in the Management Board of the Bulgarian Development Board EAD**

By decision of the Supervisory Board under Protocol No 28 of 6 June 2022 Mariana Dimitrova Petkova was elected as a member of the Management Board of Bulgarian Development Bank EAD. This circumstance was entered in the Commercial Register on 13 June 2022. By decision of the Supervisory Board under Protocol No 51/06.06.2022 Mrs. Mariana Dimitrova Petkova is authorized to represent and manage the Bank as Executive Director. This circumstance was entered in the Commercial Register on 13 June 2022. Mrs. Mariana Dimitrova Petkova is elected as Chairman of the Management Board.

By decision of the Supervisory Board under Protocol No 30 of 9 June 2022 Vladimir Rashkov Gueorguiev was released as a member of the Management Board of the Bank. Vladimir Rashkov Gueorguiev was deregistered from the Commercial Register as a member of the Management Board on 16 June 2022.

By decision of the Supervisory Board under Protocol No 31 of 9 June 2022 Jivko Ivanov Todorov was released as a member of the Management Board of the Bank effective as of 13 June 2022. The circumstance was entered in the Commercial Register on 23 June 2022.

### **Changes in the management bodies of the subsidiaries**

By Decision under Protocol of 10.06.2022 of the Management Board of BDB in its capacity of sole owner of BDB Microfinancing EAD Mr. Vladimir Rashkov Gueorguiev was

released as a member of the Board of Directors and Mariana Dimitrova Petkova was elected as a new member. These circumstances are recorded in the Commercial Register on 23.06.2022.

By Decision under Protocol of 10.06.2022 of the Management Board of BDB EAD in its capacity of sole owner of National Guarantee Fund EAD Mr. Jivko Ivanov Todorov was released as a member of the Board of Directors. This circumstance was entered in the Trade Register on 23.06.2022.

### **The war in Ukraine**

In the early hours of 24 February 2022, a full-scale military invasion of Russia began in its southwestern neighbour Ukraine. The attack on Ukraine has been described as the most serious military conflict in Europe since the end of World War II. Russia has been subject to large-scale economic sanctions from the European Union, the United States, Britain, Canada and other countries, including traditionally neutral ones such as Switzerland, some of which extend to Belarus.

The economic situation caused by the conflict and the sanctions imposed is expected to affect a number of sectors of the economy, including disrupting the normal economic activity of economic operators. Due to the unpredictable dynamics of the conflict and its medium- and long-term economic consequences, the scope and impact on the Bank's business are difficult to assess. Depending on the duration and scale of the conflict, and the political and economic measures taken by Russia and the United States and the EU, the Bank may reconsider its assumptions and judgments, which in turn will lead to significant adjustments in the carrying amount of assets and liabilities for the next financial year.

### **Potential immediate effects on the Group**

As of 31.12.2021 and the date of issuance of the consolidated financial statements, the Group has the following deposits in/receivables from institutions, whose main shareholder is Russia:

	<b>Amount as of 31.12.2021</b>	<b>Rating as of 31.12.2021</b>	<b>Amount as of the date of issue the financial statements</b>	<b>Rating as of the date of issuance the financial statements</b>
International Bank for Economic Cooperation (IBEC)	10,029	Baa3 (Moody's)/ BBB (Fitch)	-	WDR/WDR WDR
International Investment Bank (IIB)	74,308	A3 (Moody's)/ A-(Fitch)	-	(Moody's)/ BB-(Fitch)

As of the date of issuance of the consolidated financial statements, the Group companies have no receivables from these banks.

### **Potential effects on the Group's customers**

The business of some important customers of the Group is also expected to be affected by disrupted supply chains, travel restrictions, increased prices and more. As of the date of issue of the consolidated financial statements, customers still do not have a detailed quantitative assessment of the potential effects of the war, however:

- Customers operating in the **tourism and hospitality sector** expect a decrease in visits from Russia and Ukraine, and are not confident that they will be able to fully compensate for these visits with tourists from other markets
- Customers operating in the **transport sector** expect a significant increase in energy costs as a result of the war in Ukraine. These customers are also unsure of the extent to which they will be able to pass on additional costs to their own customers without causing an outflow of consumption, with a corresponding negative effect on operating results and financial position.
- Customers in the **construction and real estate sector** expect high prices of materials to remain in the medium term, as main suppliers of these raw materials - iron, cement and others - are Russia and Ukraine. Customers are not sure how much they will be able to pass on additional costs to their own customers
- Customers in the **trade and services sector** expect increase in costs due to rising energy prices, as well as general inflation pressure as a result of the war, but do not expect a significant effect on their operating results and financial position: these customers expect that to a high degree, will be able to offset the effect of the increases.
- Customers in **the industry sector** are directly affected by increased energy and material prices, as well as disrupted supply chains.
- The Group's customers in the sector "**Production, transmission, distribution and delivery of natural gas and heat**" are directly affected by increased energy prices, expecting regulatory compensational measures, given their special status of natural monopolies in respective markets. In addition, the disruption of natural gas supplies from Russia effective as of 27 April 2022 could not be compensated fully in the short term, and will possibly lead to:
  - Decrease of income from transmission of natural gas for the period, in which normal deliveries are offset by other sources;
  - Increase in the short-term of costs of delivery of natural gas for heat production;

Negative effects are likely both on the operational results and financial condition of these customers for 2022, and on the economy as a whole. At the same time, it is unlikely that as a result of these developments, customers will be permanently unable to repay their obligations to the Group.

The Group carefully monitors the development with its customers and is ready to take appropriate measures to protect its interests, and those of its customers.

The effect of the overall economic consequences may lead to the need to revise certain assumptions and accounting estimates. At this stage, the Group's management is unable to reliably assess these effects as events unfold on a daily basis.

Longer-term effects may affect the Group's financial position, performance and cash flows. However, at the date of issue of these consolidated financial statements, the Group companies continue to meet their obligations on time and for these reasons continue to apply the going concern principle.

### 13 MANAGEMENT STATEMENT

The management of BDB declares that the attached annual consolidated financial statements accurately reflect the property and financial position of the Group as at the end of 2021, as well as the determination of the financial result for the year, in accordance with the legislation in force. An appropriate accounting policy has been used and applied consistently. When preparing the consolidated financial statements, the necessary assessments have been made, in accordance with the prudence concept. Management consistently uses the applicable accounting standards, and the annual consolidated financial statements have been prepared on a going concern basis.

The management of the Bank shall endeavour to maintain an appropriate accounting system that meets the accounting standards in force. The annual consolidated financial statements disclose the position of BDB Group with a reasonable degree of accuracy.

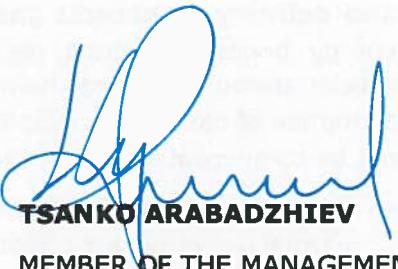
All measures have been taken to protect the assets of BDB Group, prevent fraud and prevent violation of the laws in the country and the regulations of the BNB for regulating banking activity.

This consolidated report on the activities was adopted by the Management Board of the Bulgarian Development Bank EAD with Protocol №61 of the Management Board of 28 June 2022 and Protocol №36 of the Supervisory Board of the Bank of 29 June 2022, and was signed by:



**MARIANA PETKOVA**

CHAIRMAN OF THE MANAGEMENT BOARD  
AND EXECUTIVE DIRECTOR



**TSANKO ARABADZHEV**

MEMBER OF THE MANAGEMENT BOARD  
AND EXECUTIVE DIRECTOR



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## APPENDIX 1: BDB GROUP CORPORATE GOVERNANCE DECLARATION

### 1. PRINCIPLES OF CORPORATE GOVERNANCE

This corporate governance declaration has been prepared on the basis of Art. 40, para. 1 of the Accountancy Act. The information provided takes into account the fact that Bulgarian Development Bank EAD has not issued securities admitted to trading on a regulated market or shares that are traded on a multilateral trading system.

### 2. THE BDB GROUP

As of the end of 2021, the financial group of the Bulgarian Development Bank<sup>10</sup> (the "Group", the "BDB Group" or the "Financial Group") includes Bulgarian Development Bank EAD<sup>11</sup> ("BDB", the "Bank") and its subsidiaries – National Guarantee Fund EAD ("NGF"), BDB Microfinancing EAD, formerly Microfinancing Institution JOB<sup>12</sup> ("BDB Microfinancing"), Capital Investments Fund AD ("CIF"), BDB Leasing EAD ("BDB Leasing") and BDB Factoring EAD ("BDB Factoring").

As a credit institution established pursuant to a special act - the BDB Act („BDBA") - and at the same time, applying all regulatory requirements of Bulgarian National Bank ("BNB") and the European legislation, and in performing its mission of being a sustainable instrument of the government policy for promoting the development of the small and medium-sized businesses in Bulgaria, Bulgarian Development Bank EAD has set as its goal to be a benchmark for good corporate governance and corporate responsibility, while consistently and strictly observing the National Corporate Governance Code, The Code of Professional Conduct adopted by the Bank, the Code of Ethics of the Internal Audit of the BDB Group, as well as good corporate and banking practices.

Bulgarian Development Bank EAD holds a license for an investment intermediary according to which it may provide investment services and perform investment activities under Article 6, paragraph 2 of the Markets in Financial Instruments Act (MFIsA), as well as additional services under Art. 6, paragraph 3 of the MFIsA according to a granted license from BNB.

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<sup>10</sup>As of 31 December 2021, the Bank is the sole owner of TC Maritza EOOD. The company is not part of the strategic business model of the Financial Group of BDB.

<sup>11</sup> On 04.06.2021 Bulgarian Development Bank is registered in the Trade Register and Register of Non-Profit Entities as a sole owned joint stock company owned by the Republic of Bulgaria. The sole owner rights are exercised by the Minister of Economy. With a change in the Bulgarian Development Bank Act, effective as of 18 March 2022, the rights of the state as a sole owner of the capital of the Bank are exercised by the Minister of Innovation and Growth.

<sup>12</sup> The company name Microfinancing Institution JOBS EAD was changed to BDB Microfinancing EAD as of 12 April 2021.

Investment services are provided and investment activities are performed in accordance with the requirements of MFIsA, Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (Directive 2014/65/EU or MiFID II), Regulation (EU) 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 (Regulation (EU) 600/2014), Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive (Delegated Regulation (EU) 2017/565) and the acts on their implementation, Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (Market Abuse Regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Directives 2003/124/EC, 2003/125/EC and 2004/72/EC of the Commission and others, as well as the applicable laws and regulations of the Republic of Bulgaria.

The Bank does not provide investments services or perform investment activities under Article 6, paragraph 2, items 8 and 9 of the MFIsA - organisation of a multilateral trading facility and an organised trading facility.

Bulgarian Development Bank EAD applies and maintains systems and procedures that guarantee the security, completeness and confidentiality of its operations as an investment intermediary.

In view of the above, the Bank has adopted and updated its internal regulations in accordance with the applicable legislation.

## **2.1. BULGARIAN DEVELOPMENT BANK EAD (BDB, THE BANK)**

Bulgarian Development Bank EAD (BDB, the Bank) was incorporated on 11 March 1999 as a joint stock company under the name of Encouragement Bank AD.

On 23 April 2008, the Bulgarian Development Bank Act (BDBA) was adopted. It arranges the scope of activity of the Bank and its subsidiaries that may be established.

Head office and registered address of Bulgarian Development Bank EAD is Sofia 1000, Sredets area, 1, Dyakon Ignatij Street.

As of 31 December 2021, Bulgarian Development Bank EAD has no branches.

As of 31 December 2021, the FTE of Bulgarian Development Bank EAD is 231 employees.

The Bank complies with the requirements of the BNB for minimum required share capital for the exercise of banking activity, as well as the capital requirements of BDBA. From its founding until August 2017, the state participation in the BDB is under the control of the Minister of Finance. With an amendment to BDBA in 2017, the management of state participation passes under the control of the Minister of Economy.

On 13 May 2021 the Council of Ministers adopted Decision No 414 to increase the state's shareholding in the capital of Bulgarian Development Bank and on 4 June 2021 Bulgarian Development Bank was entered in the Commercial Register and Register of Non-profit Legal Entities as a sole commercial company.

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As of 31 December 2021, ownership of the capital is distributed as follows: 100% are owned by the Republic of Bulgaria, and the rights of the state as sole owner of the capital are exercised by the Minister of Economy.

With an amendment to the Bulgarian Development Bank Act, in force since 18 March 2022, the rights of the state as sole owner of the capital of the Bank are exercised by the Minister of Innovation and Growth.

As of 31 December 2021, the capital of the Bank amounts to BGN 1,441,773,500. composed of 14,417,735 ordinary, registered, dematerialized shares with voting rights, each with a nominal value of BGN 100. BDB shares are not traded on a regulated market.

The Bulgarian Development Bank Act sets forth that a package of at least 51% of the shares of the capital of the Bank shall be state owned, which are non-transferable. The rights on the shares cannot be subject to transfer agreements.

Pursuant to Art. 6 Par. 4 of the BDB Act the shares in the capital of the Bank, besides the Bulgarian state, may be acquired and owned by the Council of Europe Development Bank, the European Investment Bank and the European Investment Fund, by development banks of Member States of European Union. In these cases art. 31 of the Credit Institutions Act does not apply.

The management of the BDB shall be carried out in accordance with Art. 5 of the BDB Act, according to which the Bank has a two-tier system of governance and the rights of the state as sole shareholder are exercised by the Minister of Innovations and Growth – as of the date hereof.

At the end of 2021, the BDB has no obligations under existing or new securities issues.

As of 31 December 2021 there is no judicial, administrative or arbitration proceedings concerning liabilities or receivables of the BDB Group of 10% or more of equity.

Pursuant to the Statute of BDB, the lending activity of the Bank is focused on:

- Pre-export and export financing of small and medium-sized enterprises (SMEs),
- Financing other operations of SMEs, either through intermediary banks or directly,
- Refinancing of banks granting loans to SMEs,
- Financing of investments by SMEs abroad,
- Participation in public and public-private projects or partnerships of strategic, national or regional importance.

Priority in the Bank's lending activity is lending to small and medium enterprises with high added value.

The Bank also provides other types of loans, whereas the amount of the exposure to one client or a group of related clients, different from credit institutions, central governments and central banks, in line with the requirements and restrictions of Regulation 575/2012/EU, the acts on their implementation and the Statute of the Bank, after taking into account the effect of reducing credit risk in accordance with the procedure established by the Management Board of the Bank. The Bank shall not form exposures on an individual and consolidated basis to one client or group of related clients, the total amount of which exceeds the amount of BGN 5,000,000. The restriction under the previous sentence shall

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not apply to exposures to subsidiaries of the Bank, other credit institutions, the Development Bank of the Council of Europe, the European Investment Bank and the European Investment Fund, development banks from Member States of the European Union and the cases in which the Bank carries out financial transactions, within its scope of activity, under programs specifically assigned by the Government of the Republic of Bulgaria.

The Bank shall not lend funds to:

- Activities not compliant with the National law, including for environment protection;
- Business companies with unknown ultimate controlling owner;
- Political parties and persons related to them. Persons related to political parties may be: youth, women's and other organizations, which the parties may establish according to the law, as well as entities, established by the political parties for performing the only business activities, which they are legally allowed to do;
- publishing activity, copyrights and using intellectual property, as well as the sale and distribution of printed, audio and audio-visual materials with party campaigning content;
- Non-profit enterprises and organizations;
- Media;
- Activities related to sport and sports initiatives;
- Activities prohibited by law.

The Bank provides loans directly or through commercial banks - intermediaries. The terms and conditions for providing loans are determined by the Management Board.

In 2021 amendments to the Statute of the Bank were adopted, under which the Management Board passed unanimous decision to form exposures to one client or a group of related clients, if it exceeds BGN 1,000,000 or only after prior authorisation of the Supervisory Board, in compliance with requirements of the Law on Credit Institutions and the internal rules of the Bank. Bank shall not form new exposures on an individual and consolidated basis to one client or group of related clients whose total amount exceeds the amount of BGN 5,000,000.

As of 31 December 2021, and 31 December 2020 there is no exposure of a client or group of connected clients that is greater than 25% of the Bank's regulatory equity.

In view of its specific function of conducting a state promotion policy, the BDB prioritizes in its activities programs and products for the promotion of SMEs, on-landing programs, export financing and funding under assigned mandates.

The largest credit exposure of the Bank provided to a group of related parties (outside banking institutions) as at 31 December 2021 amounts to BGN 182,419 thousand (including BGN 147,727 thousand in gross carrying amount, BGN 31,635 thousand for utilization and BGN 3,057 thousand in guarantees) (for 2020: BGN 198,839 thousand) at amortised cost, representing 17.05% (2020: 19.14%) of the Bank's equity / the Bank's eligible capital, calculated in accordance with Regulation 575/2013/EU, at the amount of BGN 1,070,167 thousand). (2020: BGN 1,038,884 thousand). An analysis of the structure of the loan portfolio by segment is provided in the consolidated and separate financial statements of the Bank.

Bearing in mind the specific activity of the Bank, as of 31 December 2021, the funds attracted from 20 largest non-bank depositors represent 85.52% of the total amount of liabilities to other clients (31 December 2020: 85.10%). The share of the largest non-bank depositor in the total amount of the liabilities to other customers amounts to 14.62% (as of 31 December 2020: 15.83%).

In 2020, the Council of Ministers commissioned the Bulgarian Development Bank implementation of two programmes aimed at reducing the economic consequences of COVID-19 spread:

- The program for guaranteeing interest-free loans in protection of people deprived of the opportunity to work due to the COVID-19 pandemic (amount: BGN 200 million from the capital of the Bank); By Decision of the Council of Ministers 506/15.07.2021 an extension was approved of the deadline for applying for credit by individuals "until 31.08.2021 or until the guarantee limits for financing under the programme by partner banks are exhausted, whichever occurs earlier". At the time of preparation of this declaration the deadline for inclusion of loans in the guaranteed portfolio under this program has expired.
- Recovery Program - The program for portfolio guarantees to support the liquidity of enterprises affected by the state of emergency and the COVID-19 pandemic, approved by Decision No 310 of the Council of Ministers of 2020. More information on the implementation of the programs is published on the Bank's website (amount: BGN 500 million from the capital of the Bank). At the time of preparation of this declaration the deadline for inclusion of loans in the guaranteed portfolio is until 30 June 2022.

In view of its specific activity, the BDB Group utilizes significant external funding from international financial institutions. Detailed information on the received external credit lines is disclosed in a note to the financial statements.

## **2.2. NATIONAL GUARANTEE FUND (NGF)**

National Guarantee Fund EAD is a company founded on 12 August 2008 on the basis of the Bulgarian Development Bank Act and was registered at the Commercial Register on 22 August 2008. According to the Credit Institutions Act, the National Guarantee Fund EAD is a financial institution entered in 2009 into the Register by BNB under Art. 3, Par. 2 of CIA. In compliance with the Statute of the company the principal activities include:

- Issuing guarantees for supplementing the collateral under loans to small and medium-sized enterprises;
- Offering other products to small and medium-sized enterprises, like: guarantee for participation in a tender; performance guarantee; advance payment guarantee; guarantee for payment of a loan of an exporter, etc.;
- Issuing guarantees for supplementing collateral under loans to small and medium-sized enterprises, carrying out research and development and for implementing these products and scientific developments into the industry;
- The guarantees issued by NGF at its own risk may cover not more than 50 percent of the liability. By an amendment to the BDB Act, promulgated in the State Gazette, issue 102 of 21 December 2012, the guarantees issued by NGF in connection with guarantee schemes under the Rural Development Programme for 2007 - 2013 and

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Development of the Fisheries Sector Operational Programme for 2007 - 2013 may cover up to 80 percent of the liability;

- Other activities, not particularly prohibited by law.

The scope of activities of NGF EAD is stipulated in Chapter X of the BDB Act (SG 43/29.04.2008).

The registered capital of the company as of 31 December 2021 amounted to BGN 80,000,000 split into 800,000 shares with nominal amount of BGN 100 each, the shares are ordinary, materialised, registered and indivisible, and each share gives the right to one vote. The Company's capital is fully paid in.

The seat and management address of the National Guarantee Fund EAD is Sofia, 1, Dyakon Ignatij Str.

As of 31 December 2021, the FTE of NGF is 11 employees.

As of 31 December 2021, NGF has no branches.

### **2.3. BDB MICROFINANCING EAD ("BDB MICROFINANCING EAD")**

BDB MICROFINANCING EAD was registered at the Commercial Register on 14 January 2011. The principal activities include Microfinancing, including providing micro-loans, acquiring from third parties and leasing industrial equipment, automobiles and other vehicles, as well as other items (finance lease), purchase and sale, and import of such items, consulting services, trade representation and mediation for local and foreign individuals and legal entities operating on the territory of the country, as well as any other activity not prohibited by law.

By Decision dated 23 March 2021 of the Management Board of BDB, as sole owner of the capital of BDB Microfinancing EAD, the company name was changed from BDB Microfinancing Institution JOBS EAD to BDB Microfinancing EAD, simultaneously changing the Statute of the company. Since 12 April 2021 Microfinancing Institution JOBS EAD has been renamed to BDB Microfinancing EAD.

By Decision dated 1 September 2021 of the Management Board of BDB, as sole owner of the capital of BDB Microfinancing EAD, the company's capital was increased through a monetary contribution of BGN 7 million by issuing 70,000 new ordinary registered shares with a par value of BGN 100 each. The new shares were subscribed by BDB and the capital increase was entered in the Commercial Register on 13 October 2021. The Statute of BDB Microfinancing EAD was changed likewise.

As at 31.12.2021, the registered capital of BDB Microfinancing is BGN 14,643,000 and is distributed to 146,430 shares with a nominal value of BGN 100 each. The shares are ordinary, available, registered and undividable, each share giving the right to one vote. The capital of the company has been fully paid up.

Head office and registered address of BDB Microfinancing is Sofia, 1, Dyakon Ignatij Str.

As of 31 December 2021, the FTE of BDB Microfinancing EAD is 15 employees.

As of 31 December 2021, BDB Microfinancing has no registered branches.

## 2.4. CAPITAL INVESTMENTS FUND AD (CIF)

Capital Investments Fund EAD (CIF) was incorporated on 24 August 2018 and registered on 04 October 2018 as a joint-stock company with 100 percent of ultimate participation of BDB (84.62% of direct participation of BDB, or 550,000 shares, and indirect participation through NGF - 15.38%, the owner of the remaining 100,000 shares). Capital Investments Fund AD is a financial institution entered on 6 June 2022 by BNB in the Register under art. 3a, para 1 of the Law on Credit Institutions. The registered capital as of 31 December 2021 consisted of 650,000 registered shares with par value of BGN 100 each, totalling BGN 65,000,000 and fully paid-in.

The scope of activities of CIF includes:

- Participation in the capital of small and medium-sized enterprises;
- Provision of advisory services on the capital structure of small and medium-sized enterprises, consultations and services relating to the transformation of enterprises under Art. 261 of the Commercial Act;
- Investment advisory services;
- Advisory services for the management of pools of securities of small and medium-sized enterprises;
- Other activities that are not expressly prohibited by law.

A key priority is to obtain capital for the growth of small and medium-sized enterprises with an established business model and opportunities for accelerated expansion in domestic and international markets.

The seat and registered address of CIF is at 1, Dyakon Ignatij Str., 1000 Sofia.

As of 31 December 2021, the FTE of CIF is 5 employees.

As of 31 December 2021, CIF had no registered branches.

## 2.5. BDB LEASING EAD (BDB LEASING)

BDB Leasing EAD, UIC 205565411 was established at constituent assembly on 06.03.2019 and entered in the Commercial Register and Register of Non-profit Organizations on 12.03.2019. Bulgarian Development Bank EAD has 100% direct shareholding in the capital of the company.

The scope of activity includes: financial leasing, lending with funds that are not raised through public attraction of deposits or other repayable funds and all additional and servicing leasing and lending activities.

The sole owner of the capital of BDB Leasing is Bulgarian Development Bank EAD. The capital of the company, paid-in at the time of the establishment amounted to BGN 2,000,000, distributed to 20,000 ordinary registered shares with a par value of BGN 100 each. With Protocol No. 83/14.09.2020 the Management Board of BDB, acting as sole owner decided to increase the capital of BDB Leasing from BGN 2,000,000 to BGN 20,000,000 by issuing 180,000 new shares with par value of BGN 100. The capital was fully paid-in on 15.09.2020 and the increase was entered in the Trade Register on 24.09.2020.

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As of 31 December 2021, the registered capital of BDB Leasing is BGN 20,000,000 distributed to 200,000 shares with a nominal value of BGN 100 each. The shares are ordinary, materialised, registered and indivisible, one vote per share.

The seat and registered address of BDB Leasing is 1, Dyakon Ignatij Str., 1000 Sofia. The company uses rented office in Sofia, 10 Stefan Karadzha Str., floor 2.

As of 31 December 2021, the FTE of BDB Leasing is 12 employees.

As of 31 December 2021, BDB Leasing had no registered branches.

## **2.6. BDB FACTORING EAD (BDB FACTORING)**

BDB Factoring is a company incorporated on 06.03.2019 and registered on 31 March 2019 as a joint-stock company, with a 100% direct participation of BDB AD. It was established on the basis of Art. 4, para. 7 of the Bulgarian Development Bank Act as a subsidiary of the Bank.

The object of "BDB Factoring" EAD is to carry out transactions for the transfer of one-time or periodic cash receivables arising from the supply of goods or the provision of services (factoring), lending with funds not raised by public attraction of deposits or other repayable funds and any additional and servicing factoring and lending activities.

The capital of the company was paid up in full at the time of establishment and amounted to BGN 2,000,000, distributed to 20,000 ordinary registered shares with a nominal value of BGN 100.

The seat and registered address of BDB Factoring is 1, Dyakon Ignatij Str., 1000 Sofia. The company uses rented office in Sofia, 10 Stefan Karadzha Str., floor 2.

As of 31 December 2021, the FTE of BDB Leasing is 10 employees.

As of 31 December 2021, BDB Leasing had no registered branches.

By Protocol No 21/23.03.2021, the Management Board of BDB, as sole owner of the capital of BDB Factoring EAD, took a decision for merger of BDB Factoring into BDB, whereas BDB fully assumes the activities of BDB Factoring, as well as its assets and liabilities. The Bulgarian National Bank and the Commission for Protection of Competition have adopted decisions in connection with the transformation and the transformation procedure is to be finalised.

On 13 May 2022, an agreement was announced on the account of Bulgarian Development Bank EAD and BDB Factoring EAD for the transformation of BDB Factoring EAD through a merger with Bulgarian Development Bank EAD. Decisions were taken for the transformation through merger under art. 262 of the Commerce Act on behalf of the Minister of Innovation and Growth and the Management Board and Supervisory Board of Bulgarian development Bank EAD which are to be entered in the Trade Register.

The merger process is expected to be completed in July 2022. Until the planned date of the merger, BDB Factoring EAD will continue its activities as an independent legal entity.

## **3. BDB GROUP RISK MANAGEMENT**

In the ordinary course of business, the companies of BDB Group are exposed to various risks, the occurrence of which may lead to loss formation and a deterioration in the financial stability of the Group. These risks shall be identified, measured, assessed and controlled

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using controls in order to be managed and to avoid the concentration of unjustified risk. The risk management process is essential for the group's profitability. The main risks to which the Group is exposed are credit, market, liquidity and operational.

In managing the different types of risk arising from the activity, the Group is guided by the principles of conservatism, objectivity, and full compliance with the national and European regulations in force. In support of this policy, the Group maintains significantly higher levels of liquidity buffers and capital adequacy than those regulatorily determined.

The adopted internal normative document "Risk Management and Control Policy of BDB EAD" sets out the objectives and principles for managing the main risks identified in the activities of "Bulgarian Development Bank" EAD, including risk appetite, strategies, risk framework, management organization, as well as responsibilities for their measurement, control, management and reporting. The policy is applicable to "Bulgarian Development Bank" EAD and its subsidiaries "National Guarantee Fund" EAD, "BDB Microfinancing" EAD, "Capital Investments Fund" AD, "BDB Leasing" EAD and "BDB Factoring" EAD.

### **3.1. MAIN RISKS**

#### **3.1.1 Credit risk of BDB Group**

The credit risk is the main risk, to which BDB and the Group companies are exposed, therefore its management is crucial for its activity. The credit risk management takes place in compliance with the BDB Act and the effective laws and regulations of the Republic of Bulgaria that regulate the credit activity and the approved international standards and established best banking practices.

BDB has established and operates bodies for monitoring, controlling and assessing the quality of the loan portfolio. Procedures and mechanisms have been introduced for ongoing monitoring, recording and management of the credit portfolio requiring periodic and, if necessary, extraordinary reports on the financial and legal status of each borrower and liable persons. If new circumstances are established, which may lead to a change in the risk profile of the borrowers, including increasing the risk of default of the credit exposure, adequate measures are undertaken, which take into account the risk profile of the debtor.

The management of BDB's credit risk is based on the following basic principles:

- comprehensive and in-depth credit risk assessment at the credit proposal examination stage;
- use of credit risk mitigation tools;
- ongoing and systematic monitoring of the level of credit risk on an individual and portfolio basis;
- the existence and implementation of clearly defined credit risk management procedures and processes and immediate commitment in the credit risk management process by the Management Board and the Risk Management Committee.

All credit risk management processes and procedures are clearly defined, with clearly established procedures in place for approving new loans, modifying or revolving existing ones and duly defined processes and responsibilities of the units involved in the ongoing credit risk monitoring and control processes. The Group's internal policies and rules

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regulate the most important risk mitigation tools and actions and determine BDB's tolerance/predisposition to take credit risks.

Loan approval is carried out on the basis of clear and well-defined criteria taking into account the specifics of the respective customer, market, purpose and structure of the loan and the source of its service. Internal methodologies for credit risk analysis and assessment are based on a set of quantitative and qualitative indicators taking into account the characteristics of the debtor and the transaction. The analysis of the creditworthiness of the Bank's counterparties focuses on identifying the key financial and business risks inherent in the client.

As a result of all this complex assessment, a credit rating shall be issued to each counterparty reflecting its individual probability of default. The process of awarding an internal credit rating is based on a rating model developed by the Bank, regulated in the internal banking regulations. The rating of a company is based on a cumulative assessment of the quantitative and qualitative indicators of the client. Credit rating is an essential element of the credit process and is at the heart of the credit decision-making assessment and the process of estimating expected credit losses on financial assets.

An essential element in credit risk management is the application of credit risk mitigation instruments. The Bank's strategy requires adequate collateral to be provided for the provision of loans. The percentage and composition of the collateral provided shall be subject to the comprehensive credit risk assessment of each individual counterparty and project and shall be approved by the competent authority of the Bank. In carrying out its activities in 2021, the Bank has not formed unsecured corporate credit exposures. The types of collateral and guarantees acceptable to the bank are regulated in the internal banking regulations.

Ongoing credit risk monitoring is another key element of the credit risk management process. The controls are carried out at the level of the individual counterparty and at the portfolio level. All credit exposures are subject to regular monitoring (credit review), its frequency of preparation being determined by the counterparty's internal credit rating, but not less than once a year. Notwithstanding regular credit reviews of counterparties, an early warning system based on a set of warning signals for counterparties indicating a potential increase in credit risk is used.

In the management of credit risk, BDB complies internal rules set by the Bank, with a system of limits set by internal regulations of the Bank by economic sectors, by instruments, as well as other credit and concentration limits, and the results of the monitoring of their compliance are reported to the competent authorities. The system of limits is reviewed and updated periodically.

The assessment of credit risks is accompanied by regular stress tests, which assess the impact of highly negative shocks on the financial performance and capital adequacy of the BDB Group. The management of the credit risk under the off-balance-sheet (guarantee) commitments made by the NGF is on two levels – at the level of individual transaction (guarantee) and at portfolio level. Credit risk at individual level is managed in accordance with the internal rules and procedures for the guarantee activity for issuing a guarantee. At portfolio level, credit risk is managed through payment limits (caps) limiting the NGF's commitment to pay up to a certain share of the amount of the guarantee portfolio issued under a programme to a bank. The subsequent management of the credit risk undertaken

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by the NGF shall be carried out through monitoring procedures within which the Fund may exclude from the guaranteed portfolio certain loans which do not meet specific requirements of the signed guarantee agreements.

In order to minimize credit risk, BDB Microfinancing shall pre-assess the creditworthiness of customers, as well as implement appropriate rules, procedures and controls for ongoing monitoring of each financing transaction. The risk exposure of the credit and leasing portfolio shall be managed by analysing the ability of counterparties to comply with their payment obligations and by placing appropriate credit limits. Credit risk is also partially reduced by accepting different types of collateral.

Credit risk at BDB Leasing is managed independently for each project, by analysing the ability of customers to service their obligations on interest and principal payments and by constant monitoring of the net realisable value of the leasing property (collateral). An individual assessment of the creditworthiness and level of acceptable risk shall be made in respect of each client. Internal rules on the approval of lease exposures shall apply. Lease contracts are entered in the Central Register of Special Pledges and the property is insured for the benefit of the Lessor. At the discretion of the competent decision-making authority, additional collateral may also be required, e.g., joint liability, promissory notes, pledge of receivables under contracts, pledge of a commercial enterprise, pledge of movable property, etc.

The main credit risk marker of each lessee is the internal (credit) rating. As such, it is a key element of the leasing process and is at the heart of the assessment for the decision to grant a lease or not, as well as the process of valuation expected credit losses in the event of impairment of assets.

The assignment of internal rating is based on the Methodology for Credit Risk Analysis and Assessment at Bulgarian Development Bank EAD, which includes cumulative assessment of financial indicators, business environment and quality indicators of the lessee and the co-debtor.

In the process of credit risk management and for the purpose of mitigating the concentration risks, BDB Leasing EAD monitors certain limits on the leasing portfolio:

- Concentration limits by economic sectors according to the source of funds for debt repayment;
- Limits for concentration by insurance companies of a portfolio of insured leasing assets of the Lessor and those accepted as collateral under lease agreements;
- Limit for total exposure to high-risk clients, according to internal rules of the BDB Group.

Following the example of the other companies in the BDB Group, BDB Factoring implements a policy for managing and reducing credit risk by analysing and assessing the creditworthiness of both suppliers and payers in factoring transactions, which is coordinated with the units in the bank. The company's activity is focused on creating a well-diversified portfolio of clients with a good and low risk profile, with the initial focus being supporting existing clients for the Bank Group, as well as creating new stable customer relationships and attracting companies operating in the factoring market. It always strives to have credit/commercial risk insurance of trade receivables to its advantage and thus to transfer the risk of non-payment to an acceptable insurer with a limit approved by a competent authority in the Group of the Bank.

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Due to the specifics of the activity of Capital Investments Fund AD, there is no credit risk for the company.

### **3.1.2 Market risks of the BDB Group**

In managing foreign exchange risk, the BDB Group implements a strategy for maintaining minimum open currency positions, subject to established limits. Positions in different currencies as well as the common currency position are monitored on a daily basis.

Foreign exchange positions are not formed for speculative purposes but are the result of foreign exchange operations arising in the ordinary course of business of the Group. In the management of assets and liabilities, due to its specific financing, the BDB Group strives that these assets and liabilities are denominated in EUR or BGN. The management and control of foreign exchange risk shall be carried out by means of limits for maximum net open position by currency type and for a common net foreign exchange position. The main elements in the process of managing foreign exchange risk include the day-to-day management and control of net open positions by currencies and generally within the established limits. The open currency position complies with the conditions and possibilities for netting positions in EURO and BGN, as provided by the applicable regulatory framework.

In managing interest rate risk, the BDB Group shall follow the principle of maintaining a balanced structure of its interest-sensitive assets and liabilities, seeking to maintain consistency between the periodicity of change in interest on assets and liabilities, as well as a correlation between the applicable reference rates on the assets and liabilities of the Group. Management and control of interest rate risk shall be carried out through a system of limits on the maximum acceptable (quantitative) impact of various shock scenarios concerning the change in market interest rates on net interest income on a one-year horizon and the economic value of the Group's capital. The internal limit framework limits the potential risk to expected future returns and the economic value of capital, within acceptable levels corresponding to the risk tolerance of the BDB Group. The interest rate risk assessment is carried out using a set of techniques including yield-based measurement, measurement based on the economic value of capital, analysis of discrepancies, interest rate stress scenarios. Regular reports and analyses are prepared for the financial assets and liabilities of the BDB and the companies of the Group, distributed at time intervals, according to their sensitivity to changes in interest rates.

Risk-taking, when carrying out money and capital market operations, is managed through a system of limits reflecting the risk profile of investments. The limits are determined by portfolio parameters such as counterparty, financial instrument, maturity, etc. The system of limits is reviewed periodically, and the implementation of the limits is subject to daily monitoring.

The portfolio of securities formed by the BDB Group for the purpose of investing free funds is characterised by relatively low interest rate risk and relatively liquid GS and securities issued by reliable institutions. In 2021, the BDB Group did not maintain a trading book and was not subject to capital requirements for market risk from commercial activities, according to regulatory regulations.

Liquidity risk management and control is carried out through day-to-day liquidity monitoring and management, maintaining access to sufficient liquidity to ensure the discrepancies between incoming and outgoing cash flows at maturity intervals, both in a

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normal banking environment and in different liquidity-aggravated scenarios. For liquidity risk management and control purposes, the Group applies internal rules and procedures through which a system of liquidity indicators including limits and early warning indicators is established. The liquidity of the Bank is managed by closely monitoring ratios indicating the liquidity position by period. Liquidity risk is measured by applying additional cash flow scenarios. The Group's liquidity buffers and additional sources of funding for market and idiosyncratic shocks are measured and monitored. The main focus of liquidity management is to maintain an adequate level of liquidity buffer in accordance with the established limits and limits set according to the risk tolerance of BDB Group. Compliance with liquidity ratio limits is monitored and reported regularly to the competent authorities.

The assessment of market risks is complemented by regular stress tests, which assess the impact of highly negative shocks on the financial performance and capital adequacy of BDB Group.

### **3.1.3 Operational risk of the BDB Group**

For the management of operational risk, the BDB Group applies a systematic approach covering the collection of objective information, timely identification of operational risk, its measurement (qualitative and quantitative), the identification of dependencies with other types of risk and the application of measures to limit its impact on the financial performance and on the capital of the Bank. In the management of operational risk, all operational events arising in the activities of the different structural units as a result of processes in the activities of the BDB Group are recorded, identifying and managing the full range of operational risks. Operating events characterised by a higher frequency, as well as those with a large potential or real effect on the financial performance of the BDB or the Companies of the Group, are subject to close investigation and monitoring. They serve as the basis for operational risk analyses in various scenarios, including when performing an operational risk stress test. Operational risk is measurable and manageable by maintaining an operating event log that serves as a basis for analysing and improving work processes and minimizing conditions that would potentially lead to operational events and losses for the Group.

Limits are applied to key operational risk indicators that perform the function of early warning signals for potential operational risk increase in order to ensure that critical issues are addressed, and a timely management response is triggered where necessary. Under the applicable regulatory framework, the capital required for operational risk is calculated using a base indicator approach.

## **3.2. STRUCTURE OF RISK MANAGEMENT**

The main units directly responsible for risk management, are the following:

### **For the Parent Company (the Bank):**

- **Supervisory Board** - performs overall supervision on risk management; In carrying out its powers, the Supervisory Board of the Bank is assisted by specialized committees as follows:
  - **Risk Management Committee (RMC)** - advises the Supervisory Board and the Management Board on the overall current and future risk strategy and the Bank's propensity to take risks and supports the control of its

implementation by senior management staff. The RMC regularly reviews information on the analysis, management and control of risks, informing it of the overall risk profile, implementation of the risk restrictions, as well as the capital and liquidity position of BDB.

- **Audit Committee (AC)** – the responsibilities of the AC with regard to risk include monitoring of financial reporting processes, monitoring the effectiveness of internal control systems, monitoring the effectiveness of risk management systems, monitoring of internal audit activities and the implementation of the audit plan, monitoring the independent financial audit, making recommendations for the selection of a registered auditor and reporting to the Supervisory Board on all matters within its competence.
- **Recruitment Committee** – analyses periodically, at least once a year the structure, composition, number of members and results of the work of the Management Board and the Supervisory Board and makes recommendations for possible changes. Periodically reviews the Policy for selection, continuity and suitability assessment in "Bulgarian Development Bank" EAD and makes recommendations for a change in it.
- **Recruitment Committee** – analyses periodically, at least once a year the structure, composition, number of members and results of the work of the Management Board and the Supervisory Board and makes recommendations for possible changes. Periodically reviews the Policy for selection, continuity and suitability assessment in "Bulgarian Development Bank" EAD and makes recommendations for a change in it.
- **Internal audit** – provides assurance to the senior management of the Bank about the effectiveness of risk management, internal control and management
- **Management Board (MB)** – is responsible for the general approach to risk management and approves strategies, principles and specific methods, techniques and procedures for risk management. The Management Board has the following ancillary bodies, which function as specialised committees:
  - **Assets and Liabilities Management Committee (ALCO)** - it is responsible for the strategic management of the assets and liabilities and liquidity, and for the management of the market risks, within its competence, according to internal regulations;
  - **The Committee on Impairments and Provisions (CIP)** controls the process of monitoring, evaluating and classifying financial instruments, establishing expected credit losses and forming impairment
  - **Complaints and Signals Commission** – a body for dealing with complaints and signals submitted by employees of the Group. From 1 April 2022, the Commission's activities were terminated and a new Irregularities Reporting Procedure was introduced within the BDB Group.
- **Executive Directors and Members of the MB** - exercise current operating control on maintaining and observing the specified limits for the particular types of risk and the application of the established procedures
- **Risk Management Division** - provides independent information, analysis and expert assessment of risks and provides the management body with a

comprehensive overview of all risks. The Division carries out activities related to identification, management, measurement, risk control and reporting, stress tests, monitoring limits and reporting their implementation in accordance with established escalation procedures, as well as providing opinions on risk management proposals and solutions for their compatibility with the Bank's risk tolerance;

- **Compliance Division** - is responsible for compliance with the regulatory framework, including the adaptation of the internal regulatory framework and the organization of the processes in BDB to the changes that have occurred and/or are imminent. In accordance with the Rules and Procedures for Compliance Regulation at Bulgarian Development Bank the Compliance Division provides information to the Management of BDB through regular compliance reports to the Management Board/Supervisory Board. If deficiencies are identified, it proposes remedy measures and drafts progress reports on their implementation. The internal normative documents at Group level are prepared / agreed by the Compliance Division, thus limiting the possibility of potential conflict with the applicable regulatory framework;
- **Finances Division** – performs the reporting to the Management Board and BNB by preparing reports, key indicators, business plans and their implementation, including risks at operational, business, reporting and strategic level;
- Business units that take a risk apply the established rules and procedures for the management of risks, comply with the regulated restrictions regarding their activities and provide the necessary information for analysis, evaluation and informed decision-making. Their activities are supported by the divisions Legal, Credit Administration, Security, Planning, Analysis and Regulations, Classified Information, Operations and Customer Service and Microfinancing and European Funds.

#### **For the subsidiary National Guarantee Fund EAD:**

The main units directly responsible for risk management are the following:

- Management Board of BDB EAD (the parent company) - performs overall supervision on risk management;
- Board of Directors - carries out overall risk management supervision; being responsible for overall risk management approach and for approval of risk management strategies, principles and the specific methods, techniques and procedures;
- Committee on Provisions - analyses the guaranteed portfolios in terms of overall credit risk management for the total guaranteed portfolio, as well as of each guarantee deal and beneficiary of the guarantee itself;
- Risk and Monitoring Division - performs general monitoring with respect to the guaranteed portfolios by carrying out inspections (current and after a claim for payment has been filed) of the commercial banks regarding the fulfilment of the terms and conditions of their guarantee agreements at the level of both the separate client and individual portfolio. The Division also identifies, assesses, monitors and applies measures for limiting the impact of the major risks.

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**For the subsidiary BDB Leasing EAD:**

Leading unit in terms of risk management at BDB Leasing EAD is the Risk Division of BDB Leasing EAD. The Risk Division provides independent information, analysis and expert assessment of risks and provides the management body with a comprehensive overview of all risks.

The unit performs activities related to identification, management, measurement, control and reporting of risks, stress tests, monitoring of limits and reporting on their implementation, as well as preparation of independent opinions on leasing proposals. It carries out an initial and ongoing analysis of lessees' rating, as well as initial and ongoing analysis of risk assessment methods.

A key role in risk management is also played by the Board of Directors of BDB Leasing EAD, which adopts rules and procedures for risk management and controls risk factors.

The decision-making competencies regarding granting a lease and change in the terms of concluded lease agreements are as follows:

- Procurator and BD member jointly or two BD members jointly - for a total exposure of an individual party or a group of parties related to BDB Leasing EAD up to BGN 200,000 (in the absence of another exposure to BDB group)
- Board of Directors of BDB Leasing EAD – for a total exposure of an individual party or a group of parties related to BDB Leasing up to BGN 1 million (in the absence of another exposure to BDB group);
- Management Board of BDB EAD - all exposures amounting to BGN 1 million per of an individual party or a group of parties related to BDB Group, in the presence of another exposure to the BDB Group);
- Supervisory Board of BDB EAD - all exposures amounting to over BGN 1 million of an individual party or group of parties related to BDB Group.

In accordance with the Statute of BDB EAD, the maximum admissible exposure to an individual party or a group of related parties to the BDB group may not exceed BGN 5 million.

**For the subsidiary BDB Factoring EAD:**

The main units directly responsible for risk management are:

- Management Board of BDB (The Parent Company) – conducts general supervision of the management of risks;
- Board of Directors – adopts rules and procedures for risk management. Controls the risk factors for the Company's activities and makes decisions within the limits of its powers;
- Operational management (Executive Director) – organizes the activities for implementation of the policies, rules and procedures adopted by the Board of Directors. Creates a work organization that ensures compliance with good practices and principles for risk management and reduction, the four-eye principle in each company's activity and monitoring and compliance with the specified limits and levels of risk. Controls the compliance of the procedures used by the relevant employees for analysis, measurement and risk assessment with the internal normative documents adopted by the Board of Directors.

Coordinates the activity and transactions in the company with the relevant units in BDB;

- Risk Division – performs preliminary and subsequent analysis of the counterparties to factoring transactions. Controls the input data necessary for the risk assessment according to an applicable method of reliability and sufficiency. Monitors and controls compliance with commitments and agreed terms, limits and deadlines. Carries out an initial and ongoing verification of risk assessment methods. If necessary, sends reminders. Periodically prepares reports and reports on the state of factoring transactions and the presence of early warning signals of potential difficulties on the same. Prepares and submits to the Board of Directors and report ongoing reports to the operational management in order to assess the risks in the company's activities, including compliance with limits;
- Operations Division – monitors and controls compliance with commitments and agreed terms, limits and deadlines. Performs initial and ongoing verification and control of the submitted transaction documents. Monitors and controls the state of factoring transactions and the presence of early warning signals of potential difficulties on the same. Prepare and submit to the Board of Directors and report periodic reports on an ongoing basis to the operational management.

**For the subsidiary BDB Microfinancing EAD:**

The main units directly responsible for risk management are:

- Management Board of BDB (The Parent Company) – conducts general supervision of the management of risks;
- Board of Directors – adopts rules and procedures for risk management. Controls the risk factors for the Company's activities and makes decisions within the limits of its powers. Also, analyses credit transactions worth more than BGN 100,000 in terms of credit risk management in their resolution;
- Credit Committee – currently monitors and analyses the Loan and Leasing Portfolio of the Company in terms of credit risk, including individual transactions;
- Credit Council – analyses credit and leasing transactions in terms of credit risk management in their resolution and/or renegotiation;
- Operational management (Executive Director and Procurator) – organizes the activities for implementation of the risk management rules adopted by the Board of Directors. Creates a work organization that ensures compliance with the specified limits and levels of risk. Controls the compliance of the procedures used by the relevant employees for risk analysis, measurement and assessment with the internal normative documents adopted by the Board of Directors;
- Risk Management Division - develops and implements a risk management system. It prepares and submits to the Board of Directors periodic reports in order to assess the risks in the activity, including compliance with limits and reports ongoingly to the operational management of the Company. It carries out an initial and ongoing verification of risk assessment methods. It controls

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the input data necessary for the risk assessment according to an applicable method of reliability and sufficiency.

### **For the subsidiary Capital Investments Fund AD:**

Due to the specifics of the activity of Capital Investments Fund AD, there is no credit risk for the company. Due to the specifics of the activity of "Capital Investments Fund" AD, there is no credit risk for the company. According to the investment policy of the CIF, Chief Risk Expert gives an opinion in which he presents his suggestions for minimizing risk and optimizing the parameters of transactions. Also, monitoring is carried out on a daily basis in view of the requirements of the specific investment. Formal reporting to the Board of Directors takes place at a monthly meeting of the CIF, where ongoing cases on portfolio management and a review of financial models are discussed.

The main units directly responsible for risk management are:

**Board of Directors:**

- Adopts and amends investment policy;
- Controls the implementation of the investment policy;
- Adopts decisions on investment transactions.
- Business Division – Director /Investment partners, is responsible for:
  - Identification and attraction of new partners for CIF;
  - Participation in the decision-making process for selection and management of an investment;
  - Participation in the management bodies of the company - if necessary, a decision of CIF;
  - Ongoing monitoring of portfolio investments - quarterly reports to the management of CIF;
  - Building partnerships with industry organizations, representatives of venture capital and banking institutions.

**Risk Manager:**

- Organizes, controls and participates in the risk management activities and ensures current and subsequent risk control in relation to potential and concluded transactions of CIF
- Analysis and monitoring of the risk profile of CIF's portfolio (concentration by investment amount, industries, etc.), including reviewing and expression of opinion on proposals for sales / rebalancing of the portfolio;
- Prepares opinions and reports on changes in the terms of transactions;
- Prepares individual risk ratings;
- Participates in the preparation and coordination of periodic exposure reviews;
- Participates in the process of deciding on the choice of management of a given investment, as well as in choosing the appropriate option to exit an investment;

**Investment Division – Director/analysts:**

- Monitors and is responsible for updating the valuations of company shares and financed assets;

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- Preparation of assessments and coordination of opinions on the value of company shares;
- Collection, processing and analysis of information related to and aimed at implementing the investment program of the Company;
- Review of assessments prepared by external valuers and opinions to them

#### **4. BANKING REGULATORS UNDER BULGARIAN AND EUROPEAN LEGISLATION**

In accordance with the requirements of the laws and regulations governing banking activities in the country, BDB should observe restrictions related to certain ratios in its separate and consolidated financial statements. As at 31.12.2020, BDB has complied with all regulatory requirements of BNB and the Bulgarian legislation.

Effective from 1 October 2020, pursuant to ECB Decision (EU) 2020/1015 of 24 June 2020 establishing close cooperation between the European Central Bank and the Bulgarian National Bank (ECB/2020/30), the Bank remained under direct supervision by BNB in close cooperation with the ECB. ECB's monitoring includes monitoring the implementation of the Common Supervisory Standards of the Single Supervisory Mechanism (SSM). The main objectives of the SSM are to ensure the security and stability of the European banking system, to strengthen financial integration and stability, and to ensure consistent supervision. In 2020, the Bulgarian Lev joined the exchange rate mechanism II (ERM II) and together with the established close cooperation are a precondition for Bulgaria's future membership of the Eurozone.

Effective from 01 October 2020 Bulgaria joined the Single Restructuring Mechanism together with the Single Supervisory Mechanism and gave a start to close cooperation between the Bulgarian National Bank and ECB. Pursuant to those acts, the Single Resolution Board took over the supervision of planning of restructuring process with respect to the Bank. The European bank supervision as well as the Single Restructuring Mechanism are the main pillars of the banking union in the EU.

#### **5. CONTROL ENVIRONMENT**

The companies of the BDB Group follow a management philosophy and operational style subordinated to the principles of conservatism in the implementation of the strategic objectives of the Bank under the BDB Act.

The organizational model of the risk management and control functions is built based on the three lines of defence model. The main roles of the three lines of defence include:

The first line of defence covers risk management by business units and risk-taking units - Corporate Banking, Investment Banking and Project Finance, External Programs, Non-performing Loans, Treasury and Financial Instruments. Their activities are supported by the Legal, Credit Administration, Security, Finance, Classified Information, Operations and Customer Service and Microfinancing and European Funds divisions, which evaluate and analyse the compliance with internal and regulatory restrictions and support decision-making activities in risk-taking and management. At this level, risk management is carried out by setting appropriate controls and procedures.

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The second line of defence provides independent assessment, control and management of risk by the units performing control functions, independent of the risk-taking units - the Risk and Compliance and Classified Information divisions. The Risk Division, which performs activities related to the identification, management, measurement, control and reporting of risks, stress tests, monitoring of limits and reporting on their implementation in accordance with established escalation procedures. The Classified Information Division oversees the prevention of money laundering and terrorist financing. The Compliance Division is responsible for compliance with the regulatory framework, including the adaptation of the internal regulatory framework and the processes organization in BDB Group to any implemented and / or forthcoming changes. The second line of defence is organizationally independent of the first one and carries out preventive and ongoing control.

The third line of defence is the Group's Internal Audit (GIA). It independently reviews all activities in BDB Group, subject to independent evaluation, in relation to the established system of internal rules and their adequacy, in relation to the external regulatory environment, internal control mechanisms and risk management systems covering the activities of the Group. By identifying weaknesses and shortcomings it supports the functions of the other levels of defence in the process of developing internal rules and procedures in order to improve the effectiveness of risk management. GIA provides assurance to senior management on the effectiveness of risk management, internal control and governance, and the way in which the first and second lines achieve the objectives of risk management and control. The Group's Internal Audit Division provides overall confidence from the position of the highest level of independence in the organization, through direct subordination to the Supervisory Board.

Management assigns powers and responsibilities for the operating activity in line with a detailed internal normative set of documents, which are in conformity with the current national and European legislations, where in order to guarantee the relationships in accountancy and reporting, and various specialized committees, by hierarchy of authorities, were formed to the MB and SB of BDB.

The Bank has developed an internal set of documents, which includes policies and communications focused on ensuring that all employees understand the goals of the Bank, knows how individual actions are interconnected and contribute towards these goals, and who and how is reporting and what is their responsibility.

The Bank has established an information system, including business processes related to it, providing the necessary quality and control of the financial accountability and communication.

The Bank's audit committee monitors the financial reporting processes, the effectiveness of internal control systems and the effectiveness of risk management systems; informs the Bank's management bodies about the results of the obligatory financial audit; controls the creation and the change of accounting policies by the Bank and the Group's subsidiaries; monitors the timely and reliable provision of financial information by subsidiaries in the preparation of the Bank's annual consolidated financial statements; discusses and adopts the annual report on the internal audit activity; monitors the mandatory audit of the annual financial statements (separate and consolidated); reviews the audit strategy and the audit plan of the statutory audit; monitors the implementation of the audit plan by making recommendations to the Bank's management; reviews the drafts of the audit reports under

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Art. 59 and Art. 60 of the Independent Financial Audit Act; verifies and monitors the independence of registered auditors; is in charge of the selection procedure for registered auditor and recommends his appointment; prepares an annual report and reports on its activities to the sole owner of the capital once a year and other responsibilities, detailed in the Statute of the Audit Committee.

## **6. MANAGEMENT OF BULGARIAN DEVELOPMENT BANK EAD**

Bulgarian Development Bank EAD has a two-tier governance structure, which consists of a Supervisory Board and a Management Board.

As of 31 December 2021, the management bodies have the following composition:

### **6.1. SUPERVISORY BOARD OF BDB AS OF 31.12.2021 AND AS OF THE DATE OF THIS DECLARATION:**

**Valentin Lyubomirov Mihov** – Chairman of the Supervisory Board since 07.07.2021

Valentin Mihov holds master's degrees in International Economic Relations from the Moscow State Institute of International Relations and business administration from INSEAD. He has considerable experience in the management of banks. From 1999 to 2008 he was a consultant and junior partner at the consulting firm McKinsey and managed projects at the largest banks in Bulgaria, Germany and Russia. Between 2008 and 2017 he was in senior management positions at Commerzbank in Germany, Sberbank Russia, Sberbank Europe in Austria, as well as on the supervisory boards of their subsidiaries in a number of countries in Eastern Europe. Since 2018, he provides advisory services to banks and companies as a consultant or independent member of the Board of Directors.

**Vasil Atanasov Shtonov** – Deputy Chairman and member of the Supervisory Board since 07.07.2021

Vasil Shtonov holds a master's degree in Finance from the Massachusetts Institute of Technology in Cambridge. He has extensive experience banking, telecommunications and energy. He has experience in a U.S. small and medium-sized enterprise risk fund in Los Angeles, at the McKinsey consulting firm as a junior partner, where he was team leader for engagements for analysis and management of commercial banks, and at the Bear Stearns Investment Bank in New York. He was chief strategy and marketing officer of the cable company Blizoo. Caretaker Minister for Economy and Energy in 2014.

**Stamen Stamenov Yanev** – Deputy Chairman and member of the Supervisory Board since 26.08.2020

Stamen Yanev holds a master's degree in Law from University "St. Kliment Ohridski". He specializes in European and English law at ASSER College Europe in the Netherlands, University of Cambridge, University College London, European University Institute (Italy). Yanev is a lawyer specializing in the field of mergers and acquisitions, as well as in the field of investments. His professional path passes through the major international consulting companies, including the Bulgarian divisions of some of the four largest audit companies in the world. Since 2015 he has been Executive Director of the Bulgarian Investment Agency. Deputy Minister of Economy from 2020 to 2021.

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**Mitko Emilov Simeonov** – Member of the Supervisory Board from 27.11.2017 to 13.01.2022\*

Mitko Simeonov holds a master's degree in Law from the New Bulgarian University and a Master of International Economic Relations from the University of National and World Economy. He also has a postgraduate qualification in financial management from the University of National and World Economy. He was deputy executive and executive director at the Agency for Privatization and Post-Privatization Control.

**Velina Ilieva Burska** – Member of the Supervisory Board from 27.11.2017 to 13.01.2022\*

Velina Burska holds a master's degree in Economics and Organization of Internal Trade from the University of National and World Economy. From 2002 to 2017 she was Director of the Post-Privatization Control Directorate at the Agency for Privatization and Post-Privatization Control.

\* As of 31 December 2021, entry in the Commercial Register is forthcoming of the decision of the sole owner of the capital of BDB under protocol of 27.05.2021, by which Velina Ilieva Burska and Mitko Emilov Simeonov are dismissed as members of the Supervisory Board of the Bank, is about to be registered in the Commercial Register. On 13 January 2022 in the Commercial Register was entered the decision of the sole owner of BDB's capital, through which the membership of Velina Ilieva Burska and Mitko Emilov Simeonov in the Supervisory Board of the Bank is discontinued.

In the exercise of its powers, the Supervisory Board is assisted by specialised committees as follows:

- **Risk Management Committee**, comprising the three members of the Supervisory Board of BDB. The RMC advises the Supervisory Board and the Management Board on the overall current and future risk strategy and the Bank's risk appetite, and assists its senior management in monitoring its implementation. It examines, independently of the Remuneration Committee, whether the incentives set by the remuneration system take into account risks, capital, liquidity, as well as the probability of realising planned revenues and their distribution over time. It submits to the Supervisory Board and / or the Management Board proposals for adjusting the pricing of the Bank's products when the price is not an adequate reflection of the business model and the risk strategy.

Periodically reviews risk management policies and makes recommendations to the Board of Directors if necessary. Approves proposals approved by the Management Board for limits / restrictions and policies for risk management inherent in the Bank's activities. Regularly reviews information related to risk analysis, management and control, thus getting acquainted with the overall risk profile, the implementation of risk limits, as well as the capital and liquidity position of BDB. Supervises the implementation of capital and liquidity management strategies, as well as all other relevant risks of the Bank, such as market, credit, operational risks (including legal and IT) and reputational risks, in order to assess their adequacy to the approved risk appetite and strategy. Determines the nature, volume, form and frequency of the information about the Bank's risk profile, which should be provided to the RMC. Provides advice on

the appointment of external consultants that the Supervisory Board may decide to engage for advice or support. It reviews a number of possible scenarios, including adverse scenarios, to assess how the Bank's risk profile would react to external and internal events. Monitors consistency between all significant financial products and services offered to customers and the business model and risk strategy of the Bank. Assess the recommendations of internal or external auditors and follow up on the appropriate implementation of the measures taken. Provides recommendations to the Supervisory Board on the necessary adjustments to the risk strategy arising from changes in the Bank's business model, market developments or recommendations made by risk management.

- Audit Committee - composed of three members. The Audit Committee oversees the establishment and change of accounting policies by the Bank and the Group's subsidiaries; monitors the timely and reliable provision of financial information by subsidiaries in the preparation of the Bank's annual consolidated financial statements; discusses and adopts the internal audit' annual report on the activity; monitors the mandatory audit of the annual financial statements (separate and consolidated); gets acquainted with the audit strategy and the audit plan of the statutory audit; monitors the implementation of the audit plan by making recommendations to the Bank's management; reviews the drafts of the audit reports under Art. 59 and Art. 60 of the Independent Financial Audit Act; verifies and monitors the independence of registered auditors; is responsible for the procedure for selecting the registered auditor and recommends his appointment; prepares an annual report and reports on its activities to the sole owner of the capital once a year and other responsibilities, detailed in the Statute of the Audit Committee.
- Remuneration Committee – comprising the three members of the Supervisory Board of BDB, the majority of whom are independent within the meaning of Art. 10a, para. 2 of the Credit Institutions Act. The Remuneration Committee prepares and proposes remuneration solutions, taking into account the impact on risk and its management in the BDB Group, the long-term interests of shareholders, investors and other stakeholders; provides advice to the Supervisory Board on the structure of remuneration policy, which also includes advice on gender neutrality and equal treatment of employees of different sexes; assists the Supervisory Board in monitoring compliance with remuneration policies, practices and processes related to remuneration; verifies the relevance of the existing remuneration policy and, if necessary, makes proposals for changes; review the appointment and remuneration of external consultants that the Supervisory Board may decide to engage for advice or assistance; ensure the adequacy of the information provided to the sole owner of BDB's capital, respectively to the sole owner of the capital / general meeting of shareholders of the subsidiaries on remuneration policies and practices, in particular on the proposed higher level of the fixed versus variable remuneration ratio; evaluates the mechanisms and systems adopted to ensure that the remuneration system takes proper account of all types of risks, liquidity and capital levels and that the general remuneration policy is consistent and promotes sound and effective risk management and is in line with the business

strategy, objectives, the corporate culture and values, as well as the long-term interests of the BDB Group; assesses whether the objectives of BDB Group's activities have been achieved, as well as the need for subsequent risk adjustment, including the application of deduction clauses and clauses for reimbursement of the amount of variable remuneration; reviews possible scenarios to verify how remuneration policies and practices respond to external and internal events, as well as the back-testing of the criteria used to determine remuneration and ex-ante risk-based adjustments based on actual risk outcomes; directly controls the remuneration of the heads of the Group's Internal Audit Division, the Risk Division and the Compliance Division; makes recommendations to the Supervisory Board regarding the structure of the remuneration conditions and the amount of remuneration to be paid to the heads of the Group's Internal Audit Division, the Risk Division and the Compliance Division.

- **Selection Committee** – comprising the three members of the Supervisory Board of BDB, the majority of whom are independent within the meaning of Art. 10a, para. 2 of the Credit Institutions Act. In 2021, 8 meetings of the Committee were held. The Selection Committee identifies and recommends for election by the Supervisory Board candidates for members of the Management Board, respectively by the sole owner of the capital - candidates for members of the Supervisory Board; prepares a description of the functions and requirements for the candidates and determines the time that the elected members are expected to devote to work for the Management Board and the Supervisory Board; sets a target level in connection with the participation of the underrepresented gender in the composition of the Management Board and the Supervisory Board of BDB, respectively in the composition of the Board of Directors in the subsidiaries, and updates the policy to increase the number of underrepresented gender in the composition of the councils to achieve this level; analyse periodically, but not less than once a year, the structure, composition, number of members and the results of the work of the Management Board and the Supervisory Board and makes recommendations for possible changes; analyses periodically, but not less than once a year, the knowledge, skills and experience of the Management Board and the Supervisory Board as a whole and their members individually and reports to each of them; periodically reviews the Policy for selection, continuity and assessment of suitability in the Bulgarian Development Bank EAD Group and makes recommendations for changes.

The composition of the committees of the Supervisory Board as of 31.12.2021 and as of the date of approval of this declaration is as follows:

<b>Member</b>	<b>Risk Management Committee</b>	<b>Selection Committee</b>	<b>Remuneration Committee</b>
Valentin Lyubomirov Mihov	Member	Chairperson	Member
Vasil Atanasov Shtonov	Member	Member	Chairperson
Stamen Stamenov Yanev	Chairperson	Member	Member

## **6.2. AUDIT COMMITTEE IN 2021, AS OF 31.12.2021 AND AS OF THE DATE OF APPROVAL OF THIS DECLARATION:**

As of the date of approval of this declaration the Audit Committee consists of:

**Dragomir Ivanov Vuchev** – Chairman of the Audit Committee since 25 May 2021

**Vassil Atanov Shtanov** – Member of the Audit Committee since 25 May 2021

Vassil Shtanov holds a master's degree in Finance from the Massachusetts Institute of Technology in Cambridge. He has extensive experience in banking, telecommunications and energy. He has experience in a U.S. fund for risk investments in small and medium-sized enterprises in Los Angeles, at the McKinsey consulting firm as a junior partner, where he led teams of analysis and management of commercial banks, and at the Bear Stearns Investment Bank in New York. He was Chief Strategy and Marketing Officer of the cable company Blizoo. Caretaker Minister for Economy and Energy in 2014.

**Gergana Stoyanova Moskova** – Member of the Audit Committee since 7 July 2021.

By decision of the Minister of Economy under a Protocol dated 25 May 2021, exercising the rights of the sole owner of the capital of BDB, Krasimir Vasilev Yordanov, Kalina Ivanova Mavrova and Rositsa Nikolova Grigorova were dismissed from the Audit Committee. They were replaced by Dragomir Ivanov Vuchev, Valentin Lyubomirov Mihov and Vassil Atanasov Shtanov. By a decision of the Minister of Economy under a Protocol dated 22 June 2021, exercising the rights of the sole owner of the capital of BDB, Mr. Valentin Lyubomirov Mihov was dismissed from the Audit Committee and by a decision of 7 July 2021 Mrs. Gergana Stoyanova Moskova was appointed a member of the Audit Committee.

On 16 September 2021 the Minister of Economy approved the new Statute of the Audit Committee.

In addition, in 2021 the following members have participated in the Audit Committee:

**Krasimir Vasilev Yordanov** – Chairman of the Audit Committee until 25 May 2021;

Krasimir Yordanov has a master's degree in accounting and financial control from the SA "D. A. Tsenov – Svishtov" and a master's degree in Law from the University "St. St. Cyril and Methodius". Mr. Yordanov also has a master's degree in speech and acting in public communications from NATFIZ "Kr. Sarafov", Sofia. Krasimir Vasilev Yordanov holds a PhD in economics, was an associate professor at New Bulgarian University between 2001 and 2015 and held the position of Chief Auditor at the Court of Auditors from 2001 to 2018. At present he is a professor at the International Business School – Blagoevgrad and associate professor at department Financial Control at the University of National and World Economy.

**Rositsa Nikolova Grigorova** – Member of the Audit Committee until 25 May 2021;

Rositsa Grigorova holds a master's degree in Economics and Finance from the University of National and World Economy and a master's degree in Automation Engineering from the Higher Chemical Technology Institute, Sofia. In her professional experience extending over 25 years, Mrs. Grigorova has held the following positions: lab technician at the Higher Chemical Technology Institute, economist in the Financial and Accounting Department of the Ministry of Defence, expert "Material and Technical Provision" at Military Construction

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Engineering EOOD, Head of Youth Programs and Projects Sector in the Directorate "Financial and Economic Activities Property Management" at the State Agency for Youth and Sports and State Expert, Junior Rank II in the Budget Department at the Ministry of Agriculture and Food. Rositsa Nikolova Grigorova has held senior positions as Head of budget department at the Ministry of Labour and Social Policy, Head of Accounting Department at the Finance and Property Management Directorate at the Ministry of Regional Development and Public Works, as well as deputy financial director of BNT. She is currently Finance Director and Director of the Administration Directorate at the Bulgarian National Television.

**Kalina Ivanova Mavrova** – Member of the Audit Committee until 25 May 2021;

Kalina Mavrova holds a master's degree in European Business and Finance from Nottingham Trent University, United Kingdom and has a bachelor's degree in International Economic Relations from the University of National and World Economy. Ms. Mavrova's professional experience began at the Bulgarian National Bank, where she was an intern and held the positions of expert in international communications and expert in public relations. Kalina Ivanova Mavrova continues her professional career at UniCredit Bulbank – Sofia, where she works as a product development expert and expert in marketing development. Mrs. Mavrova participated mainly in the project "Creation of an internal online portal for financial and economic analysis" during her internship at UniCredit S.P.A. – Bologna, Italy.

Management Board of BDB in 2021, as of 31 December 2021 and as of the date of this declaration:

As of the date of approval of this declaration and as of 31 December 2021 the Management Board consists of:

**Mariana Dimitrova Petkova** – Chairman of the MB and executive director since 13 June 2022

Mariana Petkova has over 28 years of international experience in the banking system. She holds a bachelor's degree in social economic planning from the University of National and World Economy, where she also specializes in international marketing. She has exceptional expertise in the field of accounting policy and reporting, as well as in the construction and development of banking software. She has held management positions in the accounting departments of First Investment Bank and Procredit Bank. From 2006 to 2021 Mariana Petkova manages Procredit Bank. In 2008, she graduated from the Corporate Academy of Managers at Procredit academy in Frankfurt, Germany.

She has been consecutively executive director and member of the Management Board in the Bulgarian branch of the bank, and deputy chief executive director and chief executive director of Procredit Bank in Romania. She organizes skilfully the activity of optimization of the processes and cost structure in the bank, and controls the process of implementation of the business strategy and the design of a stable and quality customer base in the segment "Small and Medium-sized Enterprises".

**Krum Georgiev Georgiev** – Member of the MB since 7 July 2021

Krum Georgiev has a bachelor's degree in business management and a master's degree in Finance from the University of National and World Economy. His professional career includes 11 years of experience in banking and accumulated solid knowledge in the field of

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financial analysis and corporate governance. He was head of Project Finance Department at UBB, responsible for increasing the credit portfolio, monitoring the quality of the loan portfolio and structuring new transactions. He has also successfully developed as an asset manager in the RES sector.

**Vladimir Rashkov Gueorguiev** – Member of the MB and Executive Director since 7 July 2021 until 16 June 2022.

Vladimir Gueorguiev has more than 11 years of experience in the banking system, he has gone through all levels of development, with years of management experience as head of directorates and managements in several major commercial banks, as well as a member of the Management Board and Executive Director of banking institutions. He has proven experience in the field of international banking activity and liquidity, international credit and correspondent relations, as well as in the field of rescuing banks with poor credit portfolios, dealer operations, documentary operations, liquidity, corporate finance and collection of Non-performing loans. He participated in the consolidation teams of two major Bulgarian banks as responsible for the reunification in the field of international credit and correspondent relations and liquidity. Vladimir Gueorguiev specialized in finance and banking in Germany, Austria, Belgium, Luxembourg. He has more than 19 years of experience in the financial management of Bulgarian and foreign investments in different sectors of the economy. He organized Primary Public Offering and Bond Financing through BSE for several corporate structures.

**Tsanko Rumenov Arabadzhiev** – Member of the MB and Executive Director since 7 July 2021

Tsanko Arabadzhiev is a financial manager with 16 years of experience and an established presence in the banking, insurance and private sectors. His professional career began at UBB, where in the period 2005-2013 he underwent various levels of development in the field of retail banking, management of collective investment schemes and lending to small and medium-sized enterprises. In 2013 he joined the insurance company "UNICA", where for 5 years he was Director of Investment Management. His main responsibilities are related to the overall management of the company's cash flows, the preparation and implementation of asset management strategies so as to achieve optimal returns within the investment mandate. In addition, he led various projects related to the introduction of new products, costs and processes optimization, etc. Mr. Arabadzhiev's career continued as Chief Financial Officer of Nord Holding, and since 2019 he is part of the team of Pension Insurance Company Doverie, where he is responsible for the internal control of its investment activities and managed funds. Tsanko Arabadzhiev graduated from the University of International Economic Relations at the University of National and World Economy and holds a master's degree in Finance.

**Jivko Ivanov Todorov** – Member of the Management Board and Executive Director since 14 April 2020 until 23 June 2022.

Jivko Todorov holds a master's degree in Accounting and Control from the University of National and World Economy, as well as an Executive MBA from Hult International Business School in London. His professional career began in 1997 at ING Bank – Sofia Branch, where he held successive positions as operational accountant, financial controller, Chief Financial Officer and Member of the Management Board for Bulgaria. In the period 2012-2014 he was Chief Financial Officer and Member of the Management Board of Alfa Bank – Bulgaria

Branch. From 2014 to March 2020, he was Chief Financial Officer and Member of the Management Board of First Investment Bank, where he was responsible for the resources Finance, Accounting, Investor Relations, Treasury and Financial Institutions, Correspondent Relations. Under his leadership, an internal transfer pricing policy and cost allocation model, as well as a model for calculating profitability at business line level, products and customers, was developed and implemented. In April 2020, Mr. Todorov was elected Executive Director and Member of the Management Board of the Bulgarian Development Bank.

In 2021 the following members have participated in the Management Board:

**Nikolay Dimitrov Dimitrov** – Member of the Management Board and Executive Director from 6 October 2017 until 14 July 2021.

Nikolay Dimitrov holds a Ph.D. in Economics from the University of National and World Economy (UNWE) with specializations "International Economic Relations" and "Finance". Between 2007 and 2015, he completed a number of additional courses and qualifications at the Judge Business School at Cambridge University (UK), the Investment Banking Institute (USA), among others. His banking career started at the end of 2003 and went through Raiffeisen Bank and United Bulgarian Bank. He joined the Bulgarian Development Bank in July 2011, in January 2012 became Head of the Investment Banking and Project Finance Department, and since April 2013 he is Head of the Corporate Banking Division. Alongside, he has been an associated professor at the Department of International Economic Relations at UNWE over the period 2010 - 2017.

**Panayot Ivov Filipov** – Member of the Management Board and Executive Director from 30 April 2020 until 14 July 2021.

Panayot Filipov graduated from the University of National and World Economy with a master's degree in economics and has a specialization in stock markets at the University of Delaware in Bulgaria. In 1998 he was announced for Broker No 1 on the Bulgarian Stock Exchange with the highest number of trades of the year. He entered the banking sphere in 2001, and until 2008 he held positions in Economic and Investment Bank, DZI Bank, where he was also a member of the Management Board, as well as in Piraeus Bank Bulgaria. In 2012 he took over management functions at Municipal Bank. In 2014, Mr. Panayot Filipov was appointed a member of the Board of Directors of OZK Insurance, and in 2017 he became Executive Director and Member of the Management Board of the Bulgarian Export Insurance Agency (BAEZ). In April 2020, Mr. Filipov was elected Executive Director and Member of the Management Board of the Bulgarian Development Bank EAD.

Bulgarian Development Bank EAD is represented jointly by two executive directors or at least one executive director and a procurator. As of the date of approval of this report, the Bank does not have an authorized procurator.

In 2021, there were no changes in the basic principles of governance in BDB Group.

### **6.3. COMMITTEES OF THE MANAGEMENT BOARD**

The specialized committees functioning as supporting bodies of the Management Board are as follows:

- Committee on Assets and Liabilities Management (ALCO) – its main functions include strategic management of assets, liabilities and liquidity, as well as the

management of market risks (within its competencies) defined in separate internal regulations;

- Committee on Impairments and Provisions (CIP) - controls the process of monitoring, assessment and classification of financial instruments, determination of expected credit losses and formation of impairments in accordance with the applicable financial reporting standards and internal regulations.
- Commission on Complaints and Signals (CCS) – processes complaints and signals filed by employees of the Group. On 1 April 2022, the Commission's activities were terminated, and a new Irregularities Reporting Procedure was introduced within the BDB Group.

As of 31 December 2021, the MB Committees consist of the following members.

<b>Committees of the MB</b>	<b>Asset and Liability Management Committee</b>	<b>Commission on Complaints and Signals (terminated since 1 April 2022)</b>	<b>Committee on Impairments and Provisions</b>
Jivko Todorov	Member		
Krum Georgiev	Member		Chairman
Tsanko Arabadzhiev	Chairman		
Vladimir Gueorguiev	Member		
Head of Risk Department	Member	Member	Member
Deputy Head of Risk Department Marketing and Operational Risk	Member		
Chief economist	Member		
Head of Security Department		Member	
Head of Financing Department	Member	Member	Member
Head of Group Internal Audit Department		Member	
Head of Treasury Department	Member		
Deputy head of Treasury Department	Member		
Head of Compliance Department		Chairman	
Head of Compliance Department	Member		
Head of the International Financial institutions and EU Funds Department			Member
Head of Corporate Banking Department		Member	
Head of Legal Department	Member		
Head of Financial Instruments Department			

\* The Chairman is elected by the members for a one-year term.

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As of the date of issuance of this declaration Mr. Jivko Todorov and Mr. Vladimir Gueorguiev are not members of these committees. Mrs. Mariana Petkova is a member of ALMC and CIP.

#### **6.4. CONTRACTS WITH RELATED PARTIES INVOLVED IN THE MANAGEMENT AND PARTICIPATION OF MEMBERS OF THE MB AND SB OF THE BANK IN OTHER COMPANIES**

There are no signed contracts pursuant to Art. 240b of the Companies Act between the members of the SB and MB or persons related to them, on one hand, and the Bank, on the other, which fall beyond the ordinary course of business, or which significantly deviate from the market conditions.

In 2021, there were no concluded deals between BDB and its related parties, or offers for signing such deals, which fall outside the scope of the ordinary activity, or which significantly deviate from the market conditions, to which BDB or its subsidiary is a party.

There are no material contracts concluded, which lead to action, are amended, or terminated, due to change in the control of or over the Bank, or as a result of a compulsory public procurement procedure. As far as there is a legal restriction regarding the shareholding structure of BDB, no such contracts are expected to be concluded.

There is no practice of concluding agreements among the BDB Group companies and their management bodies and/or employees for the payment of compensation upon resignation or dismissal without legal grounds thereof, or upon terminating the legal employment relationships by reasons related to tender offers.

Participation within the meaning of Art. 247, para. 2, item 4 of the Commerce Act to members of the Supervisory Board and the Management Board in trade companies as general partners, holding more than 25% of the capital of another company, as well as participation in the management of other companies or cooperatives such as procurators, managers or members of councils is as follows (as of 31.12.2021 and as of the date of approval of this declaration):

Members of the Supervisory and Management Boards

#### **I. With respect to members of the SB of the Bank who have participated in 2021 and as of the date of approval of this declaration:**

**Valentin Lyubomirov Mihov**, Chairman of the SB of the Bulgarian Development Bank EAD since 7 July 2021

Participation in the management of other trade companies:

- First Ukrainian International Bank – Member of the Supervisory Board.

Participation in the capital of trade companies:

- Valor Advisors EOOD, UIC: 204708828 – owner of more than 25 % the capital.

**Vassil Atanasov Shtanov** – Member of the Supervisory Board of Bulgarian Development Bank EAD since 7 July 2021

Participation in the management of other trade companies:

- AMC Directors EOOD, UIC: 205674040 – Managing Director;
- Re-life Clothing, UIC: 206181417 – Managing Director.

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Participation in the capital of trade companies or cooperatives, including as general partner  
– none.

**Stamen Stamenov Yanev** – Vice Chairman of the SB of Bulgarian Development Bank EAD since 26 August 2020.

Participation in the management of trade other companies:

- State Enterprise "Management and Administration of Dams", UIC: 205756975, Member of the Management Board until 25 February 2022;
- BDB Microfinancing EAD, UIC: 201390740 – Member of the Board of Directors until 5 August 2020.

Participation in the capital of trade companies or cooperatives, including as general partner  
– none.

**Mitko Emilov Simeonov** – member of SB of BDB from 21.11.2017 to 13.01.2022

He has no participation in the capital or management of trade companies.

**Velina Ilieva Burska** – member of SB of BDB from 21.11.2017 to 13.01.2022

She has no participation in the capital or management of trade companies.

**II. With respect to the members of the MB of the Bank who have participated in 2021 and as of the date of approval of this declaration:**

**Mariana Dimitrova Petkova** – Chairman of the Management Board and Executive Director of Bulgarian Development Bank EAD since 13 June 2022.

Participation in the management of other commercial companies:

- BDB Microfinancing EAD, UIC: 201390740 – Member of the Board of Directors since 23 June 2022.

Participation in the share capital of commercial entities or cooperatives - none.

**Krum Georgiev Georgiev** – Member of the Management Board of Bulgarian Development Bank EAD since 7 July 2021.

Participation in the management of other trade companies:

- BDB Leasing EAD, UIC: 205565411 – Member of the Board of Directors;
- BDB Factoring EAD, UIC: 205566082 – Member of the Board of Directors.

Participation in the capital of trade companies or cooperatives, including as general partner  
– none.

**Vladimir Rashkov Gueorguiev** – Executive Director and Member of the MB of Bulgarian Development Bank EAD since 7 July 2021 until 16 June 2022.

Participation in the management of trade companies:

- BDB Microfinancing EAD, UIC: 201390740, member of the Board of Directors since 23 August 2021 until 23 June 2022.

Participation in the capital of trade companies or cooperatives.

- Debnet EAD, UIC: 200817666 – sole owner of the capital;

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- Roza Organica OOD, UIC: 131389390 – partner.

**Tsanko Rumenov Arabadzhiev** – Executive Director and Member of the MB of Bulgarian Development Bank EAD since 7 July 2021

Participation in the management of trade companies:

- Capital Investments Fund AD, UIC: 205322014 – Member of the Board of Directors;
- BDB Factoring EAD, UIC: 205566082 – Member of the Board of Directors.

Since 22 September 2021 Tsanko Rumenov Arabadzhiev has been elected as member of the Supervisory Board of Three Seas Investment Fund.

Participation in the capital of trade companies or cooperatives, including as general partner – none.

**Jivko Ivanov Todorov** – Executive Director and Member of the MB of BDB since 14 April 2020 until 23 June 2022.

Participation in the management of other trade companies:

- BDB Leasing EAD, UIC: 205565411, subsidiary of the Bank, Chairman of the Board of Directors from 20 May 2020 until 23 August 2021;
- National Guarantee Fund EAD, UIC: 200321435, subsidiary of the Bank, Chairman of the Board of Directors since 20 May 2020 until 23 June 2022.

Participation in the capital of trade companies or cooperatives, including as general partner – none.

**Nikolay Dimitrov Dimitrov** - Executive Director and Member of the MB of BDB from 6 October 2017 until 14 July 2021.

Participation in the management of other trade companies:

- BDB Microfinancing EAD, UIC: 201390740, subsidiary of the Bank, Vice Chairman of the Board of Directors until 20 May 2020;
- Capital Investments Fund AD, UIC: 205322014, subsidiary of the Bank, Member of the Board of Directors until 20 August 2021.
- BDB Leasing EAD, UIC: 205565411, subsidiary of the Bank, Member of the Board of Directors until 20 May 2020;
- BDB Factoring EAD, UIC 205566082 subsidiary of the Bank, Member of the Board of Directors until 3 June 2020.

Participation in the capital of trade companies or cooperatives, including as general partner – none.

**Panayot Ivov Filipov** – Executive Director and Member of the MB of BDB from 30 April 2020 until 14 July 2021

Participation in the management of other trade companies:

- BDB Microfinancing EAD, UIC: 201390740, subsidiary of the Bank, Chairman of the Board of Directors from 20 May 2020 until 30 August 2021;
- BDB Factoring EAD, UIC 205566082 subsidiary of the Bank, Chairman of the Board of Directors from 20 May 2020 until 16 September 2021;

Participation in the capital of trade companies or cooperatives, including as general partner  
– none.

Information about the full amount of the compensations, rewards and/or benefits for the members of the Management and control bodies of the Bank for the fiscal accounting year, paid by the issuer and its subsidiaries is disclosed in the notes to the financial statements.

## 7. MANAGEMENT OF SUBSIDIARY COMPANIES

As of 31 December 2021, BDB is the equity owner of the following subsidiaries:

Sole owner of:

- National Guarantee Fund EAD, UIC: 200321435;
- BDB Microfinancing EAD, UIC: 201390740;
- BDB Leasing EAD, UIC: 205565411;
- BDB Factoring EAD, UIC: 205566082;
- Trade Center Maritsa EOOD, UIC: 115619162.

**Participates jointly with NGF AD in the capital of:**

- Capital Investments Fund AD, UIC: 205322014, as the registered capital is allocated as follows (BDB holds 84.62% of the company's capital and NGF holds 15.38%).

As of 31 December 2021, BDB exercises control over Cohofarm OOD<sup>13</sup>, UIC 201807408, by virtue of exercised rights under the pledge of a commercial enterprise. In 2021 the bank acquired the main production assets of the company at the amount of around BGN 2.5 million.

### 7.1. NATIONAL GUARANTEE FUND EAD

NGF EAD has a one-tier management system - Board of Directors, consisting of three members. As at the 31 December 2021 and as at the date of approval of this declaration the Board of Directors consists of the following members:

<b>Board of Directors as of 31.12.2021</b>	<b>Board of Directors as of the date of approval of the consolidated annual financial statements:</b>
<ul style="list-style-type: none"> <li>- Jivko Ivanov Todorov – Chairman of the Board of Directors from 20.05.2020 to 23.06.2022;</li> <li>- Todor Lyudmilov Todorov – Executive Director and Deputy Chairman of the Board of Directors from 20.05.2020;</li> <li>- Zaharina Damyanova Todorova – Member of the Board of Directors from 20.05.2020;</li> <li>- Deyan Petrov Kalapchiev – Member of the Board of Directors from 27.09.2021.</li> </ul>	<ul style="list-style-type: none"> <li>- Todor Lyudmilov Todorov – Executive Director and Deputy Chairman of the Board of Directors from 20.05.2020;</li> <li>- Zaharina Damyanova Todorova – Member of the Board of Directors from 20.05.2020;</li> <li>- Deyan Petrov Kalapchiev – Member of the Board of Directors from 27.09.2021.</li> </ul>

<sup>13</sup> Cohofarm OOD is also not part of the strategic business model BDB Finance Group.

The company is represented by either two of the members of the Board of Directors, jointly.

The members of the BD of NGF EAD do not hold any shares of the Fund, nor do they have any special rights on the acquisition of such shares.

There are no contracts signed pursuant to Art. 240b of the Commerce Act between the members of the BD of NGF or individuals related to them, on one hand, and the Company on the other, which fall outside the scope of the Company's ordinary activity, or which significantly deviate from market conditions.

The participation, pursuant to Art. 247, Para.2, item 4 of the Commerce Act, of members of the BD of NGF in trade companies as general partners, holding more than 25% of the capital of another company, as well as participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows (as of 31 December 2021):

**Todor Lyudmilov Todorov** – Executive Director and Vice chairman of the BD of NGF since 20 May 2020.

Participation in the management of other trade companies:

- Glenridge Capital EOOD, UIC: 205578775, Managing Director.

Participation in the capital of trade companies:

- Glenridge Capital EOOD, UIC: 205578775, sole owner of the capital;
- Hobo Bulgaria OOD, UIC: 205420451, partner - 15%.

**Jivko Ivanov Todorov** – Chairman of the Board of Directors of NGF since 20 May 2020 until 23 June 2022.

Participation in the management of other trade companies:

- Bulgarian Development Bank EAD, Executive Director and Member of the Management Board since 14 April 2020 until 23 June 2022.

Participation in the capital of trade companies or cooperatives, including as general partner: none.

**Zaharina Damianova Todorova** – Member of the Board of Directors of NGF since 20 May 2020

Participation in the management of trade companies: none.

Participation in the capital of trade companies: none.

**Deyan Petrov Kalupchiev** - Member of the Board of Directors of NGF since 27 September 2021

Participation in the management of other trade companies:

- G&L Properties OOD, UIC: 175172659, Managing Director;
- Capital alliance EOOD, UIC: 175172627, Managing Director.

Participation in the capital of trade companies:

- Capital alliance EOOD, UIC: 175172627, sole owner of the capital;
- G&L Properties OOD, UIC: 175172659, partner holding a 50% share of the capital.

## 7.2. BDB MICROFINANCING EAD

BDB Microfinancing EAD has a one-tier management system - Board of Directors, consisting of three to five members. As of 31 December 2021 and as at the date of approval of this declaration the Board of Directors consists of the following members:

Board of Directors as of 31.12.2021	Board of Directors as of the date of approval of the consolidated annual financial statements:
<ul style="list-style-type: none"> <li>- Vladimir Rashkov Gueorguiev – Chairman of the Board of Directors from 23.08.2021 to 23.06.2022;</li> <li>- Iliya Radkov Komitov – Member of the Board of Directors from 28.08.2020;</li> <li>- Boyan Stefanov Byanov – Member of the Board of Directors from 30.08.2021;</li> <li>- Ivana Borisova Tsaneva – Executive Director and Deputy Chairman of the Board of Directors from 20.05.2020</li> </ul>	<ul style="list-style-type: none"> <li>- Mariana Dimitrova Petkova – Chairman of the Board of Directors from 23.06.2022;</li> <li>- Iliya Radkov Komitov – Member of the Board of Directors from 28.08.2020;</li> <li>- Boyan Stefanov Byanov – Member of the Board of Directors from 30.08.2021;</li> <li>- Ivana Borisova Tsaneva – Executive Director and Deputy Chairman of the Board of Directors from 20.05.2020.</li> </ul>

The Company is represented by either two of the members of the Board of Directors, jointly. The Procurator may represent the Company only jointly with either one of the members of the Board of Directors.

### **In 2021 the following members have participated in the Board of Directors:**

**Panayot Ivov Filipov** – Chairman of the Board of Directors from 20 May 2020 until 30 August 2021;

**Angelina Georgieva Angelova** – Member of the Board of Directors from 20 May 2020 until 30 August 2021.

There are no contracts signed pursuant to Art. 240b of the Commerce Act between the members of the BD and/or individuals related to them, on one hand, and the Company on the other, which fall outside the scope of the Company's ordinary activity, or which significantly deviate from market conditions.

The participation, pursuant to Art. 247, Para. 2, item 4 of the Commerce Act, of members of the BD of BDB Microfinancing EAD in trade companies as general partners, holding more than 25% of the capital of another company, as well as participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows:

**Mariana Dimitrova Petkova** – Chairman of the Board of Directors from 23.06.2022

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, UIC: 121856059 – Chairman of the Management Board and Executive Director since 13 June 2022

Participation in the capital of trade companies – none.

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**Vladimir Rashkov Gueorgiev** – Chairman of the Board of Directors since 23 August 2021 until 23 June 2022;

Participation in the management of other trade companies:

- Bulgarian Development Bank EAD, UIC: 121856059 – Executive Director and Member of the Management Board since 7 July 2021 until 16 June 2022.

Participation in the capital of trade companies or cooperatives:

- DebtNet EAD, UIC: 200817666 – sole owner of the capital;
- Roza Organica OOD, UIC: 131389390 – partner.

**Boyan Stefanov Bianov** – Member of the Board of Directors since 30 August 2021.

- Participation in the management of other trade companies: none.
- Participation in the capital of trade companies or cooperatives - none.

**Panayot Isov Filipov** – Chairman of the Board of Directors from 20 May 2020 to 30 August 2021

Participation in the management of other trade companies:

- Bulgarian Development Bank EAD, UIC: 121856059 – Executive Director and Member of the Management Board from 30 April 2020 until 14 July 2021;
- BDB Factoring EAD, UIC: 205566082, subsidiary of the Bank, Chairman of the Board of Directors from 20 May 2020 until 16 September 2021.

Participation in the capital of trade companies – none.

**Ivana Borisova Tsaneva** – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020.

Participation in the management of trade companies – none.

Participation in the capital of trade companies – none.

**Angelina Georgieva Angelova** – Member of the Board of Directors from 20 May 2020 to 30 August 2021

Participation in the management of other trade companies:

- AFE EOOD, UIC: 204261633, Managing Director.

Participation in the capital of trade companies:

- CODE Broadcasting Group (TRANSTROY AMB) EOOD, UIC: 205276652, sole owner of the capital until 16 April 2021.

**Iliya Radkov Komitov** – Member of the Board of Directors since 28 August 2020

Participation in the management of trade companies:

- Brand Boys OOD, UIC: 203557782, Managing Director;
- SENMON EOOD, UIC: 202994314, Managing Director.

Participation in the capital of trade companies:

- Brand Boys OOD, UIC: 203557782, partner;
- SENMON EOOD, UIC: 202994314, sole owner of the capital.

### **7.3. CAPITAL INVESTMENTS FUND AD**

Bulgarian Development Bank EAD holds 84.62% of the capital of Capital Investments Fund AD, UIC: 205322014, and 15.38% of the Company's capital is owned by the National Guarantee Fund AD.

CIF has a one-tier management system – Board of Directors, consisting of three members. As at the end of 2021 and as at the date of approval of this declaration the Board of Directors consists of the following members:

**Board of Directors:**

**Tsanko Rumenov Arabadzhiev** – Chairman of the Board of Directors since 5 August 2021.

**Stefan Stefanov Tamnev** – Executive Director and Vice chairman of the Board of Directors since 5 August 2021.

**Krasimir Tenev Atanasov** – Member of the Board of Directors since 5 August 2021.

In 2021 the following members have participated in the Board of Directors:

**Tsvetomir Georgiev Tsanov** – Member of the Board of Directors from 20 May 2020 until 26 November 2021.

**Nikolay Dimitrov Dimitrov** – Chairman of the Board of Directors and Executive Director from 20 May 2020 until 20 August 2021.

**Tihomir Gochev Chemshirov** – Vice chairman of the Board of Directors from 20 May 2020 until 14 September 2021.

From 21 August 2020 until 6 December 2021 the company has an authorized procurator – Angel Penev Hadzhiev.

The Company is represented by either two of the members of the Board of Directors. The Procurator may represent the Company only jointly with either one of the members of the Board of Directors of the CIF.

There are no contracts signed pursuant to Art. 240b of the Commerce Act between the members of the BD and/or individuals related to them, on one hand, and the Company on the other, which fall outside the scope of the Company's ordinary activity, or which significantly deviate from market conditions.

The participation, pursuant to Art. 247, Para. 2, item 4 of the Commerce Act, of members of the BD of Capital Investments Fund AD in trade companies as general partners, holding more than 25% of the capital of another company, as well as participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows:

**Tsanko Rumenov Arabadzhiev** – Chairman of the Board of Directors since 5 August 2021

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, UIC 121856059 – member of the Management Board and Executive Director;

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- BDB Factoring EAD, UIC 205566082, subsidiary of the Bank – member of the Board of Directors.

Since 22 September 2021 Tsanko Arabadzhiev has been elected as member of the Supervisory Board of Three Seas Investment Fund.

Participation in the capital of trade companies or cooperatives, including as general partner – none.

**Stefan Stefanov Tamnev** – Executive Director and Vice Chairman of the Board of Directors since 5 August 2021.

Participation in the management of other trade companies – none.

Participation in the capital of trade companies:

- RM FRUIT OOD, UIC 206485936, partner.

**Krasimir Tanev Atanasov** – member of the Board of Directors since 5 August 2021.

Participation in the management of other trade companies:

- Primus EOOD, UIC: 175080997 – Managing Director;
- Omega Trading Partners OOD, UIC: 175048191 – Managing Director.

Participation in the capital of trade companies:

- Primus EOOD, UIC: 175080997 – sole owner of capital;
- Omega Trading Partners OOD, UIC: 175048191, partner.

**Nikolay Dimitrov Dimitrov** – Chairman of the Board of Directors and Executive Director from 20 May 2020 to 20 August 2021

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, UIC: 121856059, Executive Director and Member of the MB of the Bank until 14 July 2021;
- BDB Microfinancing EAD, UIC: 201390740, subsidiary of the Bank, Vice Chairman of the Board of Directors until 20 May 2020;
- BDB Leasing EAD, UIC: 205565411, subsidiary of the Bank, Member of the Board of Directors until 20 May 2020;
- BDB Factoring EAD, UIC: 205566082, subsidiary of the Bank, Member of the Board of Directors until 3 June 2020.

Participation in the capital of trade companies – none.

**Tihomir Gochev Chemshirov** – Vice Chairman of the Board of Directors from 20 May 2020 to 14 September 2021

Participation in the management of other trade companies – none.

Participation in the capital of trade companies – none.

**Tsvetomir Georgiev Tsanov** – Member of the company's Board of Directors from 20 May 2020 until 26 November 2021

Participation in the management of other trade companies:

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- TMI BULGARIA EOOD, UIC: 175330187 – Managing Director
- M2 PROM AD, UIC: 206194254, Member of the Board of Directors until 4 January 2022.

Participation in the capital of trade companies:

- TMI BULGARIA EOOD, UIC: 175330187 – sole owner of the capital.

#### **7.4. BDB LEASING EAD**

BDB Leasing has a one-tier management system - Board of Directors, consisting of three to five members. As at the end of 2021 and as at the date of approval of this declaration the Board of Directors consists of the following members:

**Board of Directors:**

**Krum Georgiev Georgiev** – Chairman of the Board of Directors since 23 August 2021;

**Emil Valkanov Valkanov** – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020;

**Antonia Hristoforova Dobreva** – Member of the Board of Directors since 20 May 2020.

**Jivko Ivanov Todorov** - Chairman of the Board of Directors since 20 May 2020 until 23 August 2021.

The company has an authorized procurator – Ivaylo Kirilov Popov since 1 June 2020.

The Company is represented by either two of the members of the Board of Directors, jointly. The Procurator may represent the Company only jointly with either one of the members of the Board of Directors of BDB Leasing.

There are no contracts signed pursuant to Art. 240b of the Commerce Act between the members of the BD and/or individuals related to them, on one hand, and the Company on the other, which fall outside the scope of the Company's ordinary activity, or which significantly deviate from market conditions.

The participation, pursuant to Art. 247, Para.2, item 4 of the Commerce Act, of members of the BD of BDB Leasing EAD in trade companies as general partners, holding more than 25% of the capital of another company, as well as participation in the management of other business companies or cooperatives as procurators, managers or members of boards, is as follows:

In 2021 the following members have participated in the Board of Directors:

**Krum Georgiev Georgiev** – Chairman of the Board of Directors since 23 August 2021

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, UIC 121856059 – Member of the Management Board;
- BDB Factoring EAD, UIC 205566082, subsidiary of the Bank –member of the Board of Directors.

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Participation in the capital of trade companies or cooperatives, including as general partner  
– none.

**Jivko Ivanov Todorov** – Chairman of the Board of Directors from 20 May 2020 until 23 August 2021.

Participation in the management of trade companies:

- Bulgarian Development Bank EAD, UIC 121856059, Executive Director and member of the MB since 14 April 2020 until 23 June 2022;
- National Guarantee Fund EAD, UIC 200321435, Chairman of the Board of Directors – since 20 May 2020 until 23 June 2022.
- Participation in the capital of trade companies or cooperatives, including as general partner – none

**Emil Valkanov Valkanov** – Executive Director and Vice chairman of the Board of Directors since 20 May 2020.

- Participation in the management of other trade companies - none.
- Participation in the capital of trade companies - none.

**Antonia Hristoforova Dobreva** – Member of the Board of Directors since 20 May 2020.

- Participation in the management of other trade companies – sole owner of the capital of Optima Asset 21 EOOD.
- Participation in the capital of trade companies - none.

**Ivaylo Kirilov Popov** – procurator since 01 June 2020.

Participation in the management of other trade companies - none.

Participation in the capital of trade companies:

- Vzeh EOOD, UIC: 203745229, partner – until 2 June 2020.

## 7.5. BDB FACTORING EAD

BDB Factoring EAD has a one-tier management system - Board of Directors, consisting of three to five members. As at the end of 2021 and as at the date of approval of this declaration the Board of Directors consists of the following members:

### Board of Directors:

**Tsanko Rumenov Arabadzhiev** - Chairman of the Board of Directors since 16 September 2021.

**Krum Georgiev Georgiev** – Member of the Board of Directors since 16 September 2021.

**Georgi Vanyushev Lilyanov** – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020.

The Company is represented by either two of the members of the Board of Directors, jointly.

In 2021 the following persons participated in the BD:

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**Panayot Iovov Filipov** – Chairman of the Board of Directors from 20 May 2020 until 16 September 2021.

**Todor Hristov Gunchev** – Member of the Board of Directors from 03 June 2020 until 16 September 2021.

No contracts have been concluded within the meaning of Art. 240b of the between the members of the Board of Directors and / or persons related to them, on the one hand, and the Company - on the other, who go beyond its usual activity or significantly deviate from market conditions.

The participation, in the sense of Art. 247, Para. 2, Item 4 of the Commerce Act, to members of the Board of Directors of BDB Factoring AD in commercial companies as general partners, holding more than 25% of the capital of another company, as well as their participation in the management of other companies or cooperatives such as procurators, managers or board members is as follows:

**Tsanko Rumenov Arabadzhiev** – Chairman of the Board of Directors since 16 September 2021.

Participates in the management of trade companies:

- Bulgarian Development Bank EAD, UIC: 121856059 – Member of the Management Board and Executive Director;
- Capital Investments Fund AD, UIC: 205322014, subsidiary of the Bank – Chairman of the Board of Directors.

Since 22 September 2021 Tsanko Rumenov Arabadzhiev has been elected as member of the Supervisory Board of the Three Seas Investment Fund.

Participation in the capital of trade companies or cooperatives, including as general partner – none.

**Krum Georgiev Georgiev** – Member of the Board of Directors since 16 September 2021.

Participates in the management of trade companies:

- Bulgarian Development Bank EAD, UIC 121856059 – Chairman of the Management Board;
- BDB Leasing EAD, UIC 205565411, subsidiary of the Bank – Chairman of the Board of Directors.

Participation in the capital of trade companies or cooperatives, including as general partner – none.

**Panayot Iovov Filipov** – Chairman of the Board of Directors from 20 May 2020 to 16 September 2021;

Participates in the management of trade companies:

- Bulgarian Development Bank EAD, UIC 121856059, Executive Director and member of the MB from 30 April 2020 until 14 July 2021;
- BDB Microfinancing EAD, UIC 201390740, subsidiary of the Bank, Chairman of the Board of Directors – from 20 May 2020 until 30 August 2021.

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Participation in the capital of trade companies - none.

**Georgi Vanyushev Lilyanov** – Executive Director and Vice Chairman of the Board of Directors since 20 May 2020.

Participation in the management of other trade companies - none.

Participation in the capital of trade companies - none.

**Todor Hristov Gunchev** – member of the Board of Directors from 03 June 2020 until 16 September 2021.

Participation in the management of other trade companies - none.

Participation in the capital of trade companies - none.

In 2021, there were no material contracts concluded by the BDB Group, which lead to action, are amended, or terminated, due to changes in the control or as a result of performing a compulsory public procurement procedure, and no such contracts are expected to be concluded.

## **8. TRANSACTIONS WITH COMPANIES UNDER THE JOINT CONTROL OF THE STATE**

Owner of BDB is the Bulgarian state. The consolidated and separate financial statements of the Bank present detailed information regarding the deals of the BDB Group and of BDB with companies under the joint control of the state.

## **9. STRATEGY FOR DEVELOPMENT AND BUSINESS GOALS**

BDB, together with its subsidiaries, form BDB Group. In preparing the strategy, the management of the Bank and the subsidiaries form common goals, as each company participates in its implementation according to its specialization. The strategy is prepared on a group basis and approved by the Council of Ministers.

BDB – together with the Group companies – is a key instrument and a channel for conducting government economic policies, including in specifically targeted areas, regions, industries and social groups. The Bank and the companies actively collaborate with all government other state structures in order to ensure maximum impact of the public funds targeted on support of the economic development. The focus of the activity is pre-export, export and bridge financing.

The activities of BDB Group are focused on establishing a viable and sustainable financial market for SMEs through the basic instruments of the Group – investment loans for projects, company loans, micro loans, working capital financing and credit lines, providing guarantees on direct portfolio - on BDB assets, and guarantees on commercial banks' portfolios of loans for SMEs, operating leases, equity, etc.

BDB and its subsidiaries operate in full transparency and apply the best banking and management practices. A core objective of the Bank is to reach the sectors of the economy and borrowers experiencing difficulties in accessing and obtaining financing, by providing financial solutions and products to overcome market imperfections.

In pursuing its mission, BDB – jointly with Group companies – supports government efforts for acceleration of economic growth in the country by means of providing expertise and performing activities in all areas of economic policies, facilitating the absorption of the EU structural funds, enhancing the export potential of the country, financing public and public-

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private projects or partnerships of strategic national or regional importance, incl. infrastructural projects, etc.

The main principle underlying the Group's activity is not to allow distortion of competition and displacement of the traditional commercial banks from the market. By compensating any existing market shortages in financing certain segments and clients, BDB and its subsidiaries contribute to adjusting their risk profile and further facilitate the increase of bank mediation and growth in credit volumes in the economy.

**The long-term goals of the Bank are closely related to its promotional activities and should not be limited to a medium-term framework. The goals include:**

- improving, stimulating and developing the overall economic, export and technological potential of small and medium-sized enterprises by facilitating their access to funding by providing financial schemes and instruments for financing for which the market does not provide adequate solutions;
- To create an environment of support, commitment and inspiration for SMEs to meet economic challenges by consulting and training them for successful business
- To support SMEs in the transition to carbon neutral and sustainable business by developing the debt and equity market for green investment and mobilizing private capital for the lack of funding;
- To implement programs and instruments for co-financing public investments and projects that are a priority for the country's economy;
- Raise funds and manage programs from international financial institutions, banks and capital markets;
- To ensure access to sufficient and diverse funding for SMEs;
- To facilitate access to financing company innovation, technological renewal and digitisation of SMEs.

With regard to direct lending, the Group will further develop focused product lines related to SME support. To fulfil the objectives, priorities will be pre-export, export and bridge financing. Traditionally, the Group will continue to provide funding for small and medium-sized businesses with a longer loan period and relieved legal requirements for loan collateral.

BDB, together with the Group's companies, will interact with the operational programme management bodies in Bulgaria, identifying existing problems in the financing of specific measures and offering solutions for their removal, including specific forms for their financing. Consultations will be carried out at an accelerated pace, in order to adequately include the BDB Group in the overall model of public resource management, in support of the development of the country's economy. The Bank considers its participation in it as an essential step in increasing the effectiveness of measures to support the Bulgarian economy.

The goals of BDB Group have been expanded with the new updated Strategy 2022-2023. The updated Strategy 2022-2023 is in the process of coordination and adoption by the Ministry of Innovation and Growth and the Council of Ministers.

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**The strategy and activity of the BDB Group in the next two years will adhere to the established long-term goals, but strictly following the national priorities, based on three main pillars:**

- Sustainable economic development by reducing the carbon footprint and negative effects on the environment, and increasing the degree of circularity and resource efficiency;
- Digital transformation and technological equipment of the Bulgarian business to increase productivity, efficiency and competitiveness, and to promote the transition to Industry 4.0;
- Expanding export potential through accelerated and sustainable integration into European value and supply chains - supporting connectivity and catalysing investment in modern and smart business infrastructure.

**The Group's updated strategic goals for 2022 - 2023 are refocused and aim at faster recovery of SMEs, acceleration of economic growth and creation of jobs after the Covid-19 crisis. The goals include:**

- More loans for a wider range of micro and SMEs;
- Supporting vibrant, innovative, competitive SMEs, with the potential for integration into European and global networks;
- Financing of business models of the green transition, of social and sustainable initiatives and services (in the direction and in accordance with selected goals for sustainable global development).

**To implement its priorities BDB has set the following strategic goals:**

- Ensure access to sufficient and diverse financing for SMEs in partnership and complementarity, not in competition with commercial banks;
- To finance the export and internationalization of Bulgarian SMEs;
- To finance the transition of SMEs to a green, circular and sustainable economy, incl. and through projects for social infrastructure and protection of cultural and historical heritage;
- To facilitate access to finance for technological renewal, digitalization and corporate innovation of SMEs, incl. and through online access to products and services.

In this period, BDB Group will adjust its activities to the dynamics of the business and economic recovery from the pandemic crisis, and of the consequences from the military turmoil in Europe. The Group will strive to meet the demands and needs of SMEs of funding, to deal with the negative economic effects and to create new sustainable business models.

In carrying out its activities, the BDB Group is guided by the principles of transparency, neutrality, profitability, efficiency, market compatibility and good banking practice. The main task of the Group during the period is to meet the needs of recovery and growth of the Bulgarian economy after the crisis and to add value to borrowers.

Through its financial and credit activities, BDB addresses the challenges of the crisis and takes measures to facilitate access to finance and the adequacy of financial resources. Through the instruments, BDB will seek to share risk with the private sector, seek easing

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of financial credit conditions and thus create strong incentives for other banks to lend to small and emerging companies.

The updated strategy 2022-2023 for the activities of the BDB Group is in line with the objectives of the SME promotion policy. The BDB Group will continue to support financially viable and economically sustainable projects in the new strategic period. During the period, the activities of the BDB Group will be in line with the dynamics of the phase of recovery of business and economy from the pandemic crisis, as well as to deal with the consequences of peace turmoil in Europe. The Group will strive to meet the demand and the need of SMEs for financing, to deal with the negative economic effects and to create new sustainable business models.

For the effective implementation of the above goals and objectives, Bulgarian Development Bank within the BDB Group relies on its status as a development bank and the ability to attract long-term cheaper resources from European multilateral banks, international financial institutions and international commercial banks.

Another source of external financing is the international capital markets. During the period BDB plans to use the opportunities offered by the institutions of the European Union for direct lending and issuing guarantees to other intermediary banks and / or ultimate borrowers.

In the future, the BDB Group will continue to offer financing for working capital, capital investments and export financing for micro, small and medium-sized businesses. The Group offers flexible and in line with market demand financial solutions that meet the specifics of the borrower and the funded project.

## 10. SOCIAL RESPONSIBILITY AND DIVERSITY POLICY

The Bulgarian Development Bank traditionally dedicates its mission for corporate social responsibility to topics important for the public life, such as education, culture, art and history, entrepreneurship. With the support of BDB, the most innermost dreams and wishes of disadvantaged people in Bulgaria come true, as the charitable causes happen with the understanding and personal participation of many employees of the BDB Group.

### 10.1 CULTURE, ART AND CULTURAL AND HISTORICAL HERITAGE

With the support of BDB in 2021 a **new film festival** was born. The debut edition of the **International Rhodope Film Fest** focused on the creative partnership between Bulgaria, Greece, Turkey and Germany, and the forum is emerging as a modern and innovative cultural event of national, regional and international importance, which creates conditions for support and development of the modern film industry in Bulgaria.

In order for the Bulgarian spirit to survive, BDB responded to the call of the Probuda-1903 community centre in the Rhodopean village of Stoykite to help create an **interactive collection "The Bagpipe - Ancient and Eternal"**. The village is the centre of the Rhodope bagpipe tradition, where the folklorist Apostol Kisiov, creator of "One hundred kaba bagpipes", comes from. With the support of the Bank, equipment was purchased to create the public collection and all guests of the mountain and the nearby resort of Pamporovo can view the project, designed as a combination of museum, art ethno gallery and sound production.

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In 2021, the Bank supported **Bulgarian artists** by organizing **temporary exhibitions** and purchasing their works for its collection for charity. This is part of its policy to preserve and promote Bulgarian traditions, history and culture.

## 10.2 EDUCATION AND ENTREPRENEURSHIP

2021 was one of the most difficult for Bulgarian polar explorers due to lockdowns and quarantines on the trip to Antarctica. BDB supported the Bulgarian Antarctic Institute for upgrading the IT infrastructure for the Bulgarian polar base "St. Kliment Ohridski" on the island of Livingston. It conducts key research in the fields of geology, biology, glaciology, meteorology, medicine, topography and geography with multinational participation.

The Bank responded with a clear awareness of the need for activities to modernize the information security of Bulgarian researchers.

The second strategic meeting of the **beamUp lab** program of the Bulgarian Stock Exchange was held with the financial support and active participation of BDB. This is a program to stimulate and encourage the growth of Bulgarian startups, small and medium companies. Its aim is to distinguish promising and innovative Bulgarian companies with sustainable business models, to give them visibility to potential investors, as well as to increase their knowledge about financing opportunities.

The Gravity MeetUp forum was attended by 22 startups and SMEs, mainly from the technology sector with main activities in software development, fintech, agritech, data analysis, media monitoring, e-commerce and more.

**"Let's look boldly at the stars"** is an initiative in support of the star teams of the Bulgarian Olympic teams in natural sciences, which each year participate in about 15 world Olympiads and competitions. The Bulgarian Development Bank supported the young mathematicians, computer scientists, astronomers, engineers, biologists and chemists, financially supporting their preparation for these participations. Despite the obstacles, our Olympians stand next to those of the United States, China, Russia and in 2021 brought **79 medals** to Bulgaria.

**The innovative and digital development of SMEs** in the context of the COVID-19 pandemic is an extremely important topic in today's reality. BDB supported the Bulgarian host of the **International Network for Small and Medium Enterprises (INSME)**. The discussions of the two-day forum with the participation of eminent speakers provided valuable information to entrepreneurs at an unprecedented moment about the prospects for digitalization and support for innovation.

BDB's strategy provides support for start-up innovative business projects. The Bank was the main sponsor of **Startup World Cup Bulgaria 2021**. Bulgaria broadcast its best startup project at a special event organized by the Digital 4 Foundation, in the presence of **250 representatives of financial and technology companies**. This is a round of the **World Startup Cup**, which is held annually in San Francisco and welcomes participants from 50 countries. Among the companies that took part in the competition, there were some at the conceptual stage, as well as working businesses with interesting products and innovative solutions. BDB also assists in holding **Digital4 Plovdiv 2021** - the annual conference for online marketing and trade.

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Investors and financial institutions in the field of start-ups have joined the **acceleration program of Innovation Capital**, supported by the Capital Investment Fund of the BDB Group. Seven companies won the trust of investors in the final and received investments worth EUR 280,000. The program focused on ideas for e-commerce, education, healthcare and the entertainment industry.

The BDB team continues to actively participate in public discussions on the dynamics and post-pandemic development of the economy, as well as the challenges facing small and medium-sized enterprises in the transition to a **climate-neutral economy**. An active partnership with Alma Mater has strengthened BDB's social commitment. In 2021, the bank, together with the Faculty of Economics at Sofia University, organized a **competition "Young Financier" for an essay on "Do we need green finance."** Later, the **Academy for Sustainable Investment and Finance** was launched. The participants in the training received up-to-date knowledge of green standards and relevant financial practices, as well as models for sustainable and green business.

BDB supported the study of the **global entrepreneurial network Endeavor**. It showed that the technology sector is the most progressive in Bulgaria and has grown threefold in recent years. The first study of its kind **Endeavor Insight Report** showed the main challenges and opportunities for the development of the technology sector in Sofia.

**The Future of Money 2021** Banking and Finance Forum, organized by the Manager magazine, was held at the International Business School. The event, setting the current trends in the financial world and the prospects for small and medium-sized businesses, was held with the support of BDB.

### 10.3 VULNERABLE SOCIAL GROUPS

The corporate social responsibility policy of BDB has always focused on supporting vulnerable social groups such as children deprived of parental care and disadvantaged people. Over the years, the bank has joined forces in this direction with a number of charities such as SOS Children's Villages, UNICEF, NF "St. Nicholas" and others.

In 2021 BDB provided to the **SOS Children's Villages Bulgaria** Association funds for **annual financial support of three young people**. This is done under the program **"Starting an independent life"**, aimed at a social group at risk, which often remains out of focus - adult children without parental care. The cause aims to encourage and support morally and financially the start of SOS young people in their independent life after leaving the youth homes or foster families for the period until the completion of their higher education.

BDB supported the year-round mentoring program **"Hidden Talents of Bulgaria"**. This is an educational project that gives a chance to talented children deprived of parental care and young people at risk to enter university and realize themselves professionally. The program provides access to private lessons, seminars, workshops, camps and competitions, work with an individual mentor, scholarships, textbooks, machinery and equipment, psychological support, applying to university, finding an internship or job and everything needed. The Bank also donated to **Operation Teddy Bear**, which develops the skills of talented young people at a disadvantage and gives Christmas presents to orphans across the country.

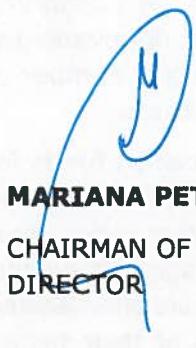
The support of the **Give a Book** Foundation is aimed at children from 18 social institutions in the country. The association serves as a mediator between children placed in institutions and over 500 active volunteers who become their mentors, help them with lessons, motivate them and give them the opportunity for new and exciting experiences outside the home. BDB also financially supported the **Scholarship program** created due to the emergency situation.

Through it, each of the children in need will have the opportunity to set a goal according to their abilities: for example, to learn the multiplication table or to reach a level in English. And then work online to achieve the goal with the mentor. Each child who completes the goal on time receives a scholarship.

#### 10.4 HEALTHCARE

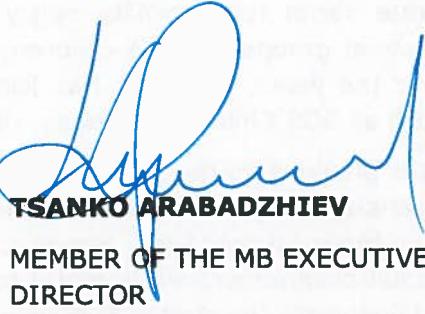
BDB traditionally participates in the charity cause "**Bulgarian Christmas**", which is carried out under the patronage of the President of the Republic of Bulgaria. In 2021, the campaign supported **emergency pediatrics and intensive care for children in critical health**, supporting comprehensive care for children with serious illnesses and disabilities, as well as follow-up care that lasts for years and requires constant treatment and medical supervision. BDB also supported the Christmas charity concert of the initiative.

The **Svetulka campaign** of the **Za Dobroto** Foundation, which the BDB supported, is aimed at changing the environment in children's wards. The idea is to turn the frightening hospital environment into a cheerful space that will make children forget that they are in a medical institution. The initiative is building separate spaces in hospitals where young patients can have fun, read, draw and watch "home cinema". The campaign, supported by the bank, teaches medical staff good practices in hospital care for children.



**MARIANA PETKOVA**

CHAIRMAN OF THE MB AND EXECUTIVE  
DIRECTOR



**TSANKO ARABADZHIEV**

MEMBER OF THE MB EXECUTIVE  
DIRECTOR





**BULGARIAN  
DEVELOPMENT BANK**

**BULGARIAN DEVELOPMENT BANK GROUP**

**INDEPENDENT AUDITORS' REPORT AND  
CONSOLIDATED ANNUAL FINANCIAL STATEMENTS**

**31 DECEMBER 2021**

*Unofficial translation from Bulgarian*

*This document is a translation of the original Bulgarian text,  
in case of divergence the Bulgarian text shall prevail.*

## INDEPENDENT AUDITORS' REPORT

To the sole owner of Bulgarian Development Bank EAD

## REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

### Opinion

We have audited the accompanying consolidated financial statements of Bulgarian Development Bank EAD (the "Parent bank") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU").

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the consolidated financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the requirements of IFAA. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<b>Impairment of loans and advances to customers</b>	
<p>The assessment of the expected credit losses from impairment of loans and advances to customers requires Group management to exercise a significant level of judgment, especially as regards identifying impaired receivables and quantifying loan impairment. To assess the amount of allowances for expected credit losses, the Group applies statistical models and separate analyses with input parameters obtained from internal and external sources.</p>	<p>During our audit, we obtained understanding of the processes for calculation of expected credit losses for loans and advances, applied by the Group. We assessed the adequacy of the policies, procedures and implemented controls in the process, in order to design our procedures in such way as to be able to address the identified risks of material misstatement in this area.</p>
<p>As disclosed in note 18 to the consolidated financial statements, the Group has recorded as at December 31, 2021 loans and advances to customers at the gross amount of BGN 2,042,171 thousand and expected credit loss for uncollectability of loans and advances to customers amounting to BGN 346,369 thousand.</p>	<p>We assessed the adequacy of the methodology used by the Group to identify loan impairment and calculate impairment allowances on individual and portfolio basis.</p>
<p>Key assumptions, estimates and parameters in determining the expected credit losses on collective basis are related to development of quantitative and qualitative indicators for following up a significant increase in credit risk for allocation of the separate customers' credit exposures to phases (Phase 1: Exposures without significant increase in credit risk; Phase 2: Exposures with significant increase in credit risk, but without objective evidence for impairment and Phase 3: Exposures with existing objective evidence for impairment); for determining "probability of default" (PD), "loss given default" (LGD) and "exposure at default" (EAD), as well as for inclusion of information about future development of macro-economic factors in the context of various scenarios in determination of the estimates for expected credit losses.</p>	<p>We tested the design, implementation and operating effectiveness of key controls management has established over the impairment assessment processes.</p> <p>The testing focused on controls related to:</p> <ul style="list-style-type: none"> <li>- timely identification of significant increase in credit risk and correct classification of loans to corresponding impairment stages,</li> <li>- regular client creditworthiness review processes,</li> <li>- creation and regular review of watch-lists,</li> <li>- approval of experts' collateral valuation,</li> <li>- management review and approval of the impairment assessment results.</li> </ul> <p>We have also reviewed the quality of the historical data used in the computation of the risk parameters and recomputed the impairment based on the risk parameters resulted from the models.</p>
<p>A high degree of uncertainty is inherent in the assessment of expected credit losses for loans and advances to customers assessed on collective basis and depends on whether the Group has sufficient historical information to test the assumptions used</p>	<p>We evaluated appropriateness of impairment methodologies and their application.</p> <p>We performed detailed substantive procedures on a risk-based sample of loans in order to verify the classification of loans and to identify any indications for impairment and whether additional allowances for impairment should be recorded. We applied our professional judgment to assess the inputs used in the calculation of impairment losses and compared our assessment to the estimates</p>

and calibrate the accuracy of the parameters PD and LGD in the impairment model.

The determination of expected credit losses for loans and advances assessed on individual basis is also related to the application of significant estimates and assumptions by management, in particular on the timing and value of expected future cash flows under the exposure, including those from realisation of collateral.

The current economic and geopolitical environment has increased the uncertainty regarding the economic outlook and has increased the complexity of assessing and monitoring customers' financial position, which requires an increased level of judgement when calculating the impairment of loans and advances.

Because of the significance of the valuation of loans and advances to customers for the consolidated financial statements, and due to the fact that the assumptions in determining the expected credit losses include significant estimates and application of professional judgment, we identified impairment of loans and advances to customers as a key audit matter.

#### **Impairment of financial guarantee contracts related to COVID-19 pandemic response programmes**

Bulgarian Development Bank EAD is an issuer of financial guarantee contracts which require the Group to make certain payments in order to reimburse the holder of the guarantee for the loss he has suffered in the event that a debtor has not made a payment when it was due, in accordance with the initial or modified terms of a debt instrument.

As of December 31, 2021 the Group measures financial guarantee contracts at the value of the loss allowance as determined in accordance with IFRS 9.

The financial guarantee contracts issued by the Bulgarian Development Bank EAD under the COVID-19 pandemic response programmes are

applied by the Group. We analysed the financial condition of the borrowers and inquired about any breaches of contracts and/or changes from the original terms and conditions of the contract. We have considered the impact of the current economic conditions, the valuation of collaterals, and other factors that may affect the recoverability of loans.

We assessed the adequacy of the Group's assumptions and estimates related to the impact of the current economic and geopolitical environment on the assessment of expected credit losses and all aspects of the process of their determination.

We involved auditors' experts in the areas which required specific expertise.

We assessed the completeness, appropriateness and adequacy of the disclosures in the Group's consolidated financial statements with regard to the measurement of loans and advances to customers.

During our audit, we obtained understanding of the processes for determining the expected credit losses from financial guarantee contracts applied by the Group. We assessed the adequacy of the policies, procedures and implemented controls in the process in order to design our further audit procedures in such way as to be able to address the identified risks of material misstatement related to the recognized expected credit losses from financial guarantee contracts.

We assessed the adequacy of the methodology used by the Group to identify impairment losses and calculate expected credit losses from financial guarantee contracts.

credit risk guarantees that are analysed and impaired according to an impairment model developed by the Group, based on the present value of the expected future cash flows under the programs and taking into account their specifics.

As disclosed in note 32 to the consolidated financial statements, the calculated provisions as of December 31, 2021 amount to BGN 74,332 thousand for guarantees on loans to companies and BGN 102,038 thousand for guarantees on loans to individuals or in total BGN 176,370 thousand.

The assessment of losses from financial guarantees requires the Group's management to apply a significant level of judgement, especially with regard to their quantification.

Because of the significance of the assessment of the losses from the financial guarantees for the consolidated financial statements, and due to the fact that the assumptions in determining the expected credit losses include significant estimates, we identified expected credit loss from financial guarantees as a key audit matter.

We tested the design and implementation of key controls management has established over the impairment assessment processes for financial guarantee contracts.

We have also reviewed the quality of the data used in the calculation of the expected credit losses and recomputed the impairment based on the parameters resulted from the models.

We involved auditors' experts in the areas which required specific expertise.

We performed detailed substantive procedures on all financial guarantee contracts in order to verify their proper classification and to identify any indications for impairment and whether additional allowances for impairment should be recorded. We applied our professional judgment to assess the assumptions used in the calculation of impairment losses and compared our assessment to the estimates applied by the Group. We have considered the impact of the current economic conditions and other factors that may affect the expected credit losses.

We assessed the completeness, appropriateness and adequacy of the disclosures in the Group's consolidated financial statements with regard to the expected credit losses from financial guarantee contracts.

## **Information Other than the consolidated financial statements and Auditors' Report Thereon**

The Management Board of the Parent bank (the "Management") is responsible for the other information. The other information comprises the annual report on activities and the corporate governance statement, prepared by the management in accordance with Chapter Seven of the Accountancy Act, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless it is not specifically stated in our auditors' report and to the extent it is specifically stated.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## **Responsibilities of Management and Those Charged with Governance for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board and the Audit Committee of the Parent bank ("Those charged with governance") are responsible for overseeing the Group's financial reporting process.

## **Auditors' Responsibilities for the Audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements.
- We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

We are jointly responsible for the performance of our audit and the audit opinion expressed by us, in accordance with the requirements of the IFAA, applicable in Bulgaria. In accepting and performing the joint audit engagement, in respect to which we are reporting, we have considered the Guidelines for Performing Joint Audits, issued on June 13, 2017 by the Institute of Certified Public Accountants in Bulgaria and the Commission for Public Oversight of the Registered Auditors in Bulgaria.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **Additional matters, required to be reported by the Accountancy Act**

In addition to our reporting responsibilities according to ISAs described in section "Information Other than the consolidated financial statements and Auditors' Report Thereon", with respect to the annual report on activities and the corporate governance statement, we have also performed the procedures, together with the required under ISA, in accordance with the "Guidelines regarding new extended reports and communication by the auditor" of the Professional Organization of Registered Auditors in Bulgaria - Institute of Certified Public Accountants (ICPA). These procedures include tests over the existence, form and content of the other information in order to assist us in forming an opinion as to whether the other information includes the disclosures and reporting as required by the applicable in Bulgaria, Chapter Seven of the Accountancy Act and Art. 100m, paragraph 8, where applicable, of the Public Offering of Securities Act.

## **Opinion under Art. 37, paragraph 6 of the Accountancy Act**

Based on the procedures performed, in our opinion:

- The information included in the consolidated report on the activities for the financial year for which the consolidated financial statements have been prepared, is consistent with the consolidated financial statements.
- The consolidated report on the activities has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
- The information required by Chapter Seven of the Accountancy Act and Art. 100m, paragraph 8, where applicable, of the Public Offering of Securities Act is presented in the corporate governance statement covering the financial year for which the consolidated financial statements have been prepared.

## **Reporting in accordance with Art. 10 of Regulation (EU) No 537/2014 in connection with the requirements of Art. 59 of the Independent Financial Audit Act**

In accordance with the requirements of the Independent Financial Audit Act in connection with Art. 10 of Regulation (EU) No 537/2014, we hereby additionally report the information stated below.

- Deloitte Audit OOD and Grant Thornton OOD were appointed as statutory auditors of the consolidated financial statements of the Group for the year ended December 31, 2021 by a decision of the sole owner taken on February 10, 2022 for a period of one year.
- The audit of the consolidated financial statements of the Group for the year ended December 31, 2021 represents third total consecutive statutory audit engagement for the Group carried out by Deloitte Audit OOD and third total consecutive statutory audit engagement for the Group carried out by Grant Thornton OOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to the Group's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that no prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act were provided.
- We hereby confirm that in conducting the audit we have remained independent of the Group.
- For the period to which our statutory joint audit refers, Deloitte Audit OOD (a company part of Deloitte network) has provided to the Parent bank, in addition to the statutory audit, the following services which have not been disclosed in Group's consolidated report on the activities or consolidated financial statements:

- Assurance services other than audit or review of historical financial information in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised) related to expressing an opinion on the compliance with the requirements of the EU for the following items: internal control system, accounting system, independent statutory audit, public tenders, financial instruments, exclusion from access to financing, publishing information about the recipients, personal data protection, The period within the scope of the assessment is June 1, 2019 – May 30, 2020.
- For the period to which our statutory joint audit refers, Grant Thornton OOD has provided to the Parent bank, in addition to the statutory audit, the following services which have not been disclosed in Group's consolidated report on the activities or consolidated financial statements:

- Review of historical financial information in accordance with International Standard on Review Engagements (ISRE) 2410 as at and for the nine months period ended September 30, 2021;
- Assurance services other than audit or review of historical financial information related to Comfort Letter on draft Offering Memorandum.
- For the period to which our statutory joint audit refers, Deloitte Audit OOD and Grant Thornton OOD jointly have provided to the Parent bank, in addition to the statutory audit, the following services which have not been disclosed in Group's consolidated report on the activity or consolidated financial statements:
  - Agreed-upon procedures to the application of BNB Ordinance 10 for the period January 1 – December 31, 2020, in accordance with the requirements of International Standard on Related Services 4400 “Engagements to Perform Agreed-upon Procedures regarding Financial Information”.

Deloitte Audit OOD

*Deloitte Audit OOD*

Rositsa Boteva

Statutory Manager

Registered Auditor, in charge of the audit

*R.B.*

Grant Thornton OOD

*SD*

Silvia Dinova

Registered Auditor, in charge of the audit

103, Al. Stambolijski Blvd.  
1303 Sofia, Bulgaria



26, Cherni Vrah Blvd.  
1421 Sofia, Bulgaria

July 4, 2022



BULGARIAN DEVELOPMENT BANK GROUP  
 CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
 AS OF 31 DECEMBER 2021  
 All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	As of 31.12.2021	As of 31.12.2020
<b>Assets</b>			
Cash in hand and balances in current account with the Central Bank	16	243,635	496,279
Receivables from banks	17	385,348	478,700
Financial assets at amortized cost – Loans and advances to customers	18	1,695,802	1,829,250
Financial assets at amortized cost – Receivables from the State budget	19	18,817	57,824
Financial assets at amortized cost – Securities	20	11,980	12,056
Financial assets at fair value through other comprehensive income – debt instruments	21	657,649	649,573
Financial assets at fair value through other comprehensive income – equity instruments	21	70,781	57,709
Net investment in finance lease	22	56,977	39,611
Assets held for sale	26	4,521	3,210
Assets, acquired from collateral foreclosure	27	34,719	33,938
Investment property	25	7,189	7,608
Property, plant and equipment, intangible assets	24	64,409	66,645
Right-of-use assets	23	177	108
Current tax receivables	27	59	1,116
Deferred tax assets	14	9,710	8,844
Other assets	27	7,166	21,447
<b>Total assets</b>		<b>3,268,939</b>	<b>3,763,918</b>
<b>Liabilities</b>			
Borrowings from international institutions	30	1,110,740	1,238,904
Deposits from customers other than credit institutions	29	738,030	980,491
Deposits from credit institutions	28	1,742	8,176
Lease liabilities	33	345	279
Other borrowings	31	82,695	85,009
Provisions	32	182,050	127,448
Deferred tax liabilities	14	15	14
Other liabilities	34	7,613	7,757
<b>Total liabilities</b>		<b>2,123,230</b>	<b>2,448,078</b>
<b>Equity</b>			
Share capital	35	1,441,774	1,441,774
Current year loss		(155,255)	(231,488)
Accumulated loss		(233,045)	(115)
Revaluation reserve on financial assets at fair value through other comprehensive income	36	(78,471)	(63,958)
Reserves	36	170,706	169,627
<b>Total equity</b>		<b>1,145,709</b>	<b>1,315,840</b>
<b>Total liabilities and equity</b>		<b>3,268,939</b>	<b>3,763,918</b>

The accompanying notes from 1 to 40 are an integral part of these consolidated financial statements. The consolidated financial statements were approved by the Management Board of Bulgarian Development Bank EAD on 28.06.2022.

Mariana Petkova  
 Executive Director

Ivan Arabadzhiev  
 Executive Director

Dimitar Mitev  
 Head of Finance Division

Ivan Lichev  
 Chief Accountant and Preparer

Auditors' report on the consolidated financial statements issued on 4 July 2022.  
 Deloitte Audit OOD, auditing company  
 Rositsa Boteva  
 Statutory Manager  
 Registered Auditor, in charge of the audit

Grant Thornton OOD, auditing company  
 Silvia Dinova, Registered Auditor, in charge of the audit

Mariy Apostolov, Statutory Manager

This document is a translation of the original Bulgarian text, in case of divergence the Bulgarian text shall prevail.



BULGARIAN DEVELOPMENT BANK GROUP  
 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
 FOR THE YEAR ENDED 31 DECEMBER 2021  
 All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	2021	2020
Interest income	6	80,076	81,471
Interest expense	6	(18,723)	(19,846)
<b>Net interest income</b>		<b>61,353</b>	<b>61,625</b>
Fee and commission income	7	7,209	6,378
Fee and commission expense	7	(4,175)	(1,663)
<b>Net fee and commission income</b>		<b>3,034</b>	<b>4,715</b>
Net income on foreign exchange deals	8	426	457
Net gain on financial assets at fair value through other comprehensive income	9	1,101	2,432
Other operating income	10	2,468	2,286
Other operating expenses	11	(1,738)	(900)
<b>Operating result before impairment, personnel expenses, administrative expenses, depreciation and amortisation</b>		<b>66,644</b>	<b>70,615</b>
Net expenses on impairment of non-financial assets	12B	(665)	(4,568)
Net expenses on impairment of financial instruments	12A	(186,558)	(258,822)
<b>Operating result before personnel expenses, administrative expenses, depreciation and amortisation</b>		<b>(120,579)</b>	<b>(192,775)</b>
Employee benefits	13A	(21,712)	(20,653)
General and administrative expenses	13B	(9,524)	(15,469)
Depreciation / amortisation expenses	24	(3,254)	(2,868)
<b>Loss before income tax</b>		<b>(155,069)</b>	<b>(231,765)</b>
Income tax benefit / (expense)	14	(186)	277
<b>Net loss for the year</b>		<b>(155,255)</b>	<b>(231,488)</b>
Share of net loss for the shareholders of the Parent bank		(155,255)	(231,488)
Share of net loss for non-controlling interest		-	-
<b>Other comprehensive income</b>			
<i>Items not to be reclassified to profit or loss in subsequent periods:</i>			
Actuarial gains on defined benefit plans, net of taxes	34	11	14
Net change in fair value of financial assets at fair value through other comprehensive income	15	(11,499)	(77,858)
<i>Items to be reclassified to profit or loss in subsequent periods:</i>			
Net change in fair value of financial assets at fair value through other comprehensive income	15	(3,014)	(2,794)
<b>Total other comprehensive income for the year, net of tax</b>		<b>(14,502)</b>	<b>(80,638)</b>
<b>Total comprehensive income for the year</b>		<b>(169,757)</b>	<b>(312,126)</b>
Share of the total comprehensive income for the shareholder of the Parent bank		(169,757)	(312,126)
Share of the total comprehensive income for non-controlling interest		-	-

The accompanying notes from 1 to 40 are an integral part of these consolidated financial statements. The consolidated financial statements were approved by the Management Board of Bulgarian Development Bank EAD on 28.06.2022.

Mariana Petkova  
 Executive Director

Isanko Arabadzhiev  
 Executive Director

Dimitar Mitev  
 Head of Finance Division

Ivan Lichev  
 Chief Accountant and Treasurer

*Auditors' report on the consolidated financial statements issued on 4 July 2022.*

*Deloitte Audit OOD, auditing company*

*Rositsa Boteva  
 Statutory Manager*

*Registered Auditor, in charge of the audit*

*Grant Thornton OOD, auditing company*

*Silvia Dinova, Registered Auditor, in charge of the audit*

*Mariy Apostolov, Statutory Manager*

This document is a translation of the original Bulgarian text, in case of divergence the Bulgarian text shall prevail.



## BULGARIAN DEVELOPMENT BANK GROUP

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

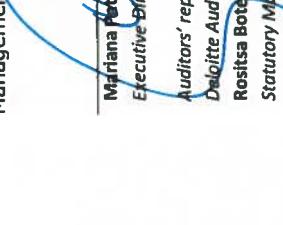
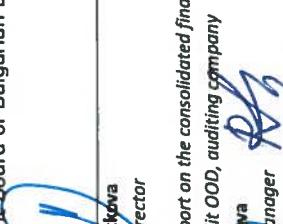
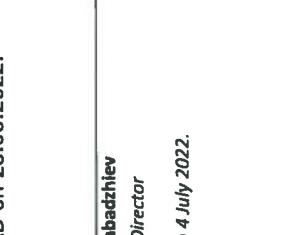
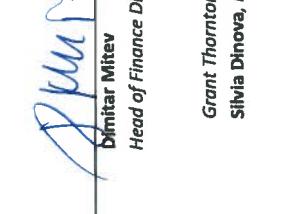
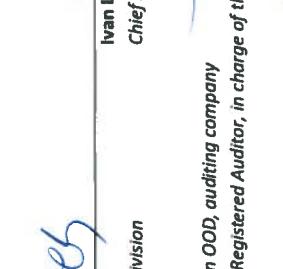
FOR THE YEAR ENDED 31 DECEMBER 2021

All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Share capital	Statutory reserves	Additional reserves	Revaluation reserve on financial assets at fair value through other comprehensive income	Retained earnings / Accumulated loss	Total
<b>As of 1 January 2020</b>	<b>601,774</b>	<b>79,229</b>	<b>77,621</b>	<b>16,694</b>	<b>11,727</b>	<b>787,045</b>
<b>Comprehensive income for the period</b>						
Loss	-	-	14	(80,652)	(231,488)	(80,638)
Other comprehensive income	-	-	-	(80,652)	(312,126)	-
<b>Total comprehensive income</b>				<b>(231,488)</b>		
Transfer to the reserves based on shareholders' decision	840,000	7,956	4,807	-	(11,842)	921
Capital increase	<b>840,000</b>	<b>7,956</b>	<b>4,807</b>			<b>840,000</b>
<b>Total transactions with owners</b>						<b>840,921</b>
<b>As of 31 December 2020</b>	<b>1,441,774</b>	<b>87,185</b>	<b>82,442</b>	<b>(63,958)</b>	<b>(231,603)</b>	<b>1,315,840</b>
<b>Comprehensive income for the period</b>						
Loss	-	-	-	11	(14,513)	(155,255)
Other comprehensive income	-	-	-	11	(14,513)	(14,502)
<b>Total comprehensive income</b>				<b>(14,513)</b>	<b>(155,255)</b>	<b>(169,757)</b>
Other movements in equity	-	-	1,068	-	(1,442)	(374)
<b>Total transactions with owners</b>						<b>(1,442)</b>
<b>As of 31 December 2021</b>	<b>1,441,774</b>	<b>87,185</b>	<b>83,521</b>	<b>(78,471)</b>	<b>(388,300)</b>	<b>1,145,709</b>

In 2020 and 2021 the Group has not distributed dividend to the shareholders.

The accompanying notes from 1 to 40 are an integral part of these consolidated financial statements. The consolidated financial statements were approved by the Management Board of Bulgarian Development Bank EAD on 28.06.2022.



BULGARIAN DEVELOPMENT BANK GROUP  
 CONSOLIDATED STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED 31 DECEMBER 2021  
 All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	2021	2020
<b>Cash flows from operating activities</b>			
Loss for the year before tax		(155,069)	(231,765)
<b>Adjustments for:</b>			
Dividend income	10	(75)	(25)
Impairment loss on loans	12	129,729	135,816
Expenses for guarantee provisions and unutilised credit commitments	12	54,561	119,829
Income from impairment of portfolio guarantees	12	(8)	(998)
(Income from)/Expenses for impairment of receivables from paid guarantees	12	(110)	3,055
Impairment losses and changes in the fair value of financial assets – securities at fair value through other comprehensive income	12	1,688	516
Impairment losses and changes in the fair value of financial assets – securities at amortized cost	12	42	25
Expenses for impairment under finance lease	12, 22	676	274
Expenses for impairment of subsidiaries	12	258	-
Loss/(Gain) on revaluation of investment properties	10	433	(152)
Impairment loss and sale of other assets	12	407	3,281
Net loss/(gain) on revaluation of foreign currency assets and liabilities	8	(7)	11
Depreciation of right-of-use assets	23	93	28
Depreciation / amortisation expenses	24	3,161	2,846
Carrying amount of written-off assets		90	75
Other changes		(71)	1,262
		<b>35,798</b>	<b>34,078</b>
<i>Changes in:</i>			
Financial assets at amortized cost – Receivables from banks		57,382	(64,795)
Financial assets at amortized cost – Loans and advances to customers		3,232	(315,025)
Financial assets at amortized cost – Receivables from the State budget		39,007	108,997
Financial assets at amortized cost – Securities		-	68
Financial assets at fair value through other comprehensive income – debt and equity securities		(36,454)	(187,905)
Net investment in finance lease		(18,029)	(30,158)
Assets held for sale		(4,533)	(587)
Deposits from credit institutions		(6,436)	278
Deposits from customers other than credit institutions		(245,642)	(12,857)
Financial liabilities at amortized cost		47	(14)
Provisions		(238)	365
Other trade receivables and payables		-	(8)
Other assets		13,526	(24,196)
Other liabilities		(974)	2,301
Income taxes refunded/(paid)		900	(901)
<b>Net cash flows used in operating activities</b>		<b>(162,414)</b>	<b>(490,359)</b>
<b>Cash flows from investing activities</b>			
Cash payments for acquisition of property, plant and equipment, and intangible assets		(1,297)	(27,599)
Cash proceeds from sale of property, plant and equipment, and intangible assets		143	-
Sale/(Purchase) of securities at amortised cost		981	(5)
Cash proceeds from matured securities at fair value through other comprehensive income		66	-
<b>Net cash flows from/(used in) investing activities</b>		<b>(107)</b>	<b>(27,604)</b>

This document is a translation of the original Bulgarian text, in case of divergence the Bulgarian text shall prevail.



BULGARIAN DEVELOPMENT BANK GROUP  
 CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)  
 FOR THE YEAR ENDED 31 DECEMBER 2021  
 All amounts are in thousand Bulgarian Levs, unless otherwise stated

	Note	2021	2020
<b>Cash flows from financing activities</b>			
Share capital increase		-	840,000
Cash paid on other borrowings		(3,652)	(25,732)
Cash received from other borrowings		885	1,427
Cash received from borrowings from international institutions		-	146,687
Cash paid on borrowings from international institutions		(128,164)	(119,720)
Lease payments		(13)	(105)
<b>Net cash flows (used in)/from financing activities</b>		<b>(130,944)</b>	<b>842,557</b>
Net (decrease)/increase/ in cash and cash equivalents		(293,465)	324,594
<b>Cash and cash equivalents at the beginning of period</b>	<b>38</b>	<b>779,357</b>	<b>454,763</b>
<b>Cash and cash equivalents at end of period</b>	<b>38</b>	<b>485,892</b>	<b>779,357</b>
Operating interest-related cash flows			
Proceeds from interest		68,956	75,646
Interest paid		(17,740)	(16,801)

The accompanying notes from 1 to 40 are an integral part of these consolidated financial statements. The consolidated financial statements were approved by the Management Board of Bulgarian Development Bank EAD on 28.06.2022.

Mariana Petkova  
 Executive Director

Banko Arabadzhiev  
 Executive Director

Dimitar Mitev  
 Head of Finance Division

Ivan Uchev  
 Chief Accountant and Preparer



*Auditors' report on the consolidated financial statements issued on 4 July 2022.*

*Deloitte Audit OOD, auditing company  
 Rositsa Boteva  
 Statutory Manager  
 Registered Auditor, in charge of the audit*



*Grant Thornton OOD, auditing company  
 Silvia Dinova, Registered Auditor, in charge of the audit*

*Mariy Apostolov, Statutory Manager*



# BULGARIAN DEVELOPMENT BANK GROUP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

All amounts are in thousand Bulgarian Levs, unless otherwise stated

### **1. ORGANISATION AND OPERATING POLICY**

These consolidated financial statements of the Group of Bulgarian Development Bank EAD (the „Group”) for the year ended 31 December 2021 were approved for issue by decision of the Management Board of Bulgarian Development Bank EAD (“BDB”, the “Bank”, the “Parent company”) on 28 June 2022.

Bulgarian Development Bank EAD (“BDB”, the “Bank”, the “Parent company”) is a sole owned<sup>1</sup> joint-stock company registered with the Commercial Register under UIC 121856059, with seat in the city of Sofia, Sofia City Region, Bulgaria, and management address: 1, Dyakon Ignatii Street. The financial year of the Bank ends on 31 December.

#### **Bulgarian Development Bank EAD Group**

Bulgarian Development Bank EAD Group includes the Parent-company – Bulgarian Development Bank EAD and its subsidiaries – National Guarantee Fund EAD (“NGF”, the “Fund”), BDB Microfinancing EAD (former name Microfinancing Institution Jobs EAD (“MFI”)), Capital Investments Fund AD (“CIF”), BDB Leasing EAD (“BDB Leasing”), BDB Factoring EAD (“BDB Factoring”) and TC Maritsa EOOD (“TCM”).

#### **Bulgarian Development Bank EAD**

Bulgarian Development Bank EAD was established on 11 March 1999 as a joint-stock company in Bulgaria under the name “Encouragement Bank” AD.

The Bulgarian Development Bank Act was adopted on 23 April 2008 (SG 43/29.04.2008) to regulate the structure and the scope of Bank’s activities, including those for its subsidiaries, envisaged for incorporation. By virtue of that law the functions and all rights and obligations were applied to Encouragement Bank AD. Pursuant to a requirement of the law, a General Meeting of the Shareholders was held (26 June 2008) at which the name of the Bank was changed to Bulgarian Development Bank and its Articles of Incorporation were amended in line with the new legal requirements thereto.

The Bank holds a general banking licence, issued by Bulgarian National Bank (BNB) on 25 February 1999 with latest update of 16 November 2009, and is allowed to conduct all banking transactions permitted by the Bulgarian legislation. The Bank is also a licensed investment intermediary.

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<sup>1</sup> On 04.06.2021 Bulgarian Development Bank is registered in the Trade Register and Register of Non-Profit Entities as a sole owned joint stock company owned by the Republic of Bulgaria. The sole owner rights are exercised by the Minister of Economy. With a change in the Bulgarian Development Bank Act, effective as of 18 March 2022, the rights of the state as a sole owner of the capital of the Bank are exercised by the Minister of Innovation and Growth.

BULGARIAN DEVELOPMENT BANK GROUP  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021

All amounts are in thousand Bulgarian Levs, unless otherwise stated

**1. ORGANISATION AND OPERATING POLICIES (CONTINUED)**

**Bulgarian Development Bank EAD (continued)**

From the very beginning, the Bank was established with a special purpose – to support the implementation of the economic policies of the State by financing the business development of small and medium-sized enterprises (SME), including by supporting their investment and export abilities and initiatives. With the adoption of the Bulgarian Development Bank Act in 2008 this objective was further elaborated in the objectives, principles and scope of the Bank's activities set by the law.

The Bulgarian Development Bank Act (2008) provides for the establishment of two subsidiaries, joint stock companies, of the Bank - Capital Investments Fund AD and National Guarantee Fund EAD.

The Bank's lending activity includes:

- pre-export and export financing of SME;
- financing SME operations and projects either through intermediary banks or directly;
- refinancing banks that grant loans to SME;
- financing SME investments abroad.

The main objectives of the Bank are:

- to promote, encourage and develop the general economic, export and technological potential of SMEs by facilitating their access to finance;
- drawing in and management of medium and long-term local and foreign resources needed for the implementation of economic development in the country;
- implementation of schemes and instruments to finance public investment projects that are priorities for the country's economy;
- fundraising and project management of international financial and other institutions; fundraising and grant funding in order to reduce regional imbalances in the country;
- financing of projects of local companies that create export, innovation, high employment and / or value added;
- financing of priority sectors of the economy, in line with the government policy for economic development.

BULGARIAN DEVELOPMENT BANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**1. ORGANISATION AND OPERATING POLICIES (CONTINUED)**

**Bulgarian Development Bank EAD (continued)**

Bulgarian Development Bank EAD has a two-tier system of governance, which comprises Supervisory Board (SB) and Management Board (MB). The Supervisory Board and the Audit Committee represent those charged with governance.

As of 31 December 2021, the members of the Supervisory Board of BDB (SB) were: Valentin Lyubomirov Mihov – Chairman of SB and member of the SB, Vassil Atanasov Shtanov – Deputy Chairman and member of the SB, Stamen Stamenov Yanev – Deputy Chairman and member of the SB, Mitko Emilov Simeonov - Deputy Chairman and member of the SB, Velina Ilieva Burska – member of SB.

As of the date of preparation of these consolidated financial statements the Supervisory Board of BDB has the following members:

Valentin Lyubomirov Mihov – Chairman of SB and member of the SB, Vassil Atanasov Shtanov – Deputy Chairman and member of the SB; Stamen Stamenov Yanev – member of the SB.

On 13 January 2022 the decision of the sole owner of BDB as per Protocol dated 27.05.2021 which releases Velina Ilieva Burska and Mitko Emilov Simeonov as members of the Supervisory Board was entered in the Commercial Register and Register of Non-profit Legal Entities.

As of 31 December 2021, the Management Board comprises: Krum Georgiev Georgiev – chairman of the SB, Vladimir Rashkov Georgiev – member of the SB and executive director, Tsanko Rumenov Arabadzhiev – member of the SB and executive director and Jivko Ivanov Todorov – member of the SB and executive director.

As of the beginning of 2022 until 23 June 2022 the following changes have been made in the membership of the Management Board of Bulgarian Development Bank EAD:

By decision of the Supervisory Board of Bulgarian Development Bank EAD of 6 June 2022 Mrs. Mariana Dimitrova Petkova was elected as a member of the Management Board of Bulgarian Development Bank EAD and the decision was entered in the Commercial Register on 13 June 2022. Mrs. Mariana Petkova is elected as Chairman of the Management Board and Executive Director of the Bank.

By decision of the Supervisory Board of Bulgarian Development Bank EAD of 9 June 2022 Mr. Vladimir Rashkov Gueorguiev was released as a member of the Management Board and Executive Director of Bulgarian Development Bank EAD. The decision was entered in the Commercial Register on 16 June 2022.

By decision of the Supervisory Board of Bulgarian Development Bank EAD of 9 June 2022 Mr. Jivko Ivanov Todorov was released as a member of the Management Board and Executive Director of Bulgarian Development Bank EAD effective as of 13 June 2022. The decision was entered in the Commercial Register on 23 June 2022.

BULGARIAN DEVELOPMENT BANK GROUP  
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**1. ORGANISATION AND OPERATING POLICIES (CONTINUED)**

**Bulgarian Development Bank EAD (continued)**

As of the date of preparation of these consolidated financial statements the Management Board of BDB has the following structure: Mariana Dimitrova Petkova, Chairman of the Management Board and Executive Director, Tsanko Rumenov Arabadzhiev, member of the Management Board and Executive Director and Krum Georgiev Georgiev, member of the Management Board.

The Bank is represented jointly by either two of the three Executive Directors.

As of 31 December 2021, the Bank's employees were 231 (as of 31 December 2020: 235).

As of 31 December 2021, Bulgarian Development Bank EAD has no open branches.

**Credit rating**

On 1 March 2021 the International rating agency „Fitch Ratings“ raised the outlook of the rating of the Bulgarian Development Bank EAD from stable to positive and confirmed the long-term credit rating of the Bank to "BBB". The assessment is based on the reliable support of the sovereign – the Bulgarian state, as well as on the role of the BDB to support the economic policy of the government. A stable perspective shows the existence of a balance for the risks related to the assessment of the credit rating. The long-term investment rating of the Bank is equal to the rating of the sovereign: the last credit rating of the Republic of Bulgaria awarded by Fitch Ratings – "BBB" positive perspective – is dated 19.02.2021. This assessment was also confirmed during the annual review in September 2021 and the rating was retained.

**Changes related to the ownership of the capital of the Bulgarian Development Bank EAD**

On 13 May 2021 the Council of Ministers adopted Decision No 414 to increase the state's shareholding in the capital of "BDB." By this decision the increase in the shareholding of the State in the capital of "Bulgarian Development Bank" EAD by acquiring by donation all shares held by DSK Bank EAD in the capital of "Bulgarian Development Bank" AD, namely 8 dematerialized shares, each with a nominal value of BGN 100, a total of BGN 800, representing 0.000055 per cent of the capital of "Bulgarian Development Bank" AD was approved.

On 14 May 2021, a contract was concluded for the donation of 8 dematerialized shares between DSK Bank AD and the Republic of Bulgaria. The transfer of ownership of the shares is registered with the Central Depository of the Republic of Bulgaria.

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**1. ORGANISATION AND OPERATING POLICIES (CONTINUED)**

**Bulgarian Development Bank EAD (continued)**

**Changes related to the ownership of the capital of the Bulgarian Development Bank EAD (continued)**

On 4 June 2021, the Bulgarian Development Bank EAD was registered in the Commercial Register and register of non-profit legal entities as a sole – owned commercial company.

As of 31 December 2021, ownership of the BDB's capital is distributed as follows: 100% are owned by the Republic of Bulgaria, and the rights of the state as sole owner of the capital are exercised by the Minister of Economy.

With an amendment to the Bulgarian Development Bank Act, in force since 18 March 2022, the rights of the state as sole owner of the capital of the Bank are exercised by the Minister of Innovation and Growth.

**Significant changes in the management bodies and structure of the Bank in 2021**

***Changes in the Statute of Bulgarian Development Bank EAD***

By decision of the Minister of Economy under Protocol of 21 May 2021, amendments were made in the Statute of the Bulgarian Development Bank, most of the changes related to reflecting the change in ownership of the capital of the Bank (sole shareholder company). The amendments to the Statute, which explicitly state that the priority in the Bank's credit activity, should be indicated as essential for lending to export-oriented small and medium-sized enterprises with high added value. A restriction has been introduced for BDB to form exposures to one client or group of related clients whose total amount exceeds BGN 5 million, and this restriction does not apply to other credit institutions, the Council of Europe Development Bank, the European Investment Bank, the European Investment Fund, development banks from Member States of the European Union, as well as in the cases when BDB implements specifically government-mandated programmes. A requirement has been introduced for exposures to a client or group of related clients whose amount exceeds BGN 1,000,000 to be approved by the Management Board by unanimous decision and only after the permission of the Supervisory Board.

By decision of the Minister of Economy under a protocol of 10 June 2021, new amendments were adopted in the Statute of Bulgarian Development Bank EAD, which are related to the number of the management and supervisory bodies of the Bank. According to the changes in the Statute, the Supervisory Board consists of three to seven persons, the Management Board consists of three to seven members.

BULGARIAN DEVELOPMENT BANK GROUP  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**1. ORGANISATION AND OPERATING POLICIES (CONTINUED)**

**Bulgarian Development Bank EAD (continued)**

**Significant changes in the management bodies and structure of the Bank in 2021 (continued)**

***Changes in the Statute of Bulgarian Development Bank EAD (continued)***

By decisions of the Minister of Economy under protocol of 1 June 2021 and under protocol of 20 July 2021, new amendments have been adopted in the Statute of Bulgarian Development Bank EAD, under which the limit for exposures of more than BGN 5 million does not apply to the subsidiaries of the Bank. The Statute explicitly specifies that the Bank shall not form new exposures on an individual and consolidated basis to one client or group of related clients whose total amount exceeds the amount of BGN 5,000,000. It is also specified that the approval of credit transactions and changes to existing contracts is carried out in accordance with the Bank's current rules on credit activity, the Statute, and the applicable legislation.

These amendments to the Statute have been approved by the Bulgarian National Bank and have been entered into the Commercial Register and the register of non-profit legal entities under the lot of Bulgarian Development Bank EAD.

***Changes in the Supervisory Board of Bulgarian Development Bank EAD in 2021***

By decision of the sole owner of BDB under Protocol dated 25.06.2021 Valentin Lyubomirov Mihov and Vassil Atanasov Shtanov were elected for members of the Bank's Supervisory Board. This circumstance was recorded in the Commercial Register and Register of Non-Profit Entities on 07.07.2021. Mr. Valentin Lyubomirov Mihov was elected for Chairman of the Bank's Supervisory Board.

The decision of the sole owner of the capital of BDB as per Protocol dated 27.05.2021 was entered in the Commercial Register and Register of Non-Profit Entities on 13.01.2022 by which Velina Ilieva Burska and Mitko Emilov Simeonov are dismissed as members of the Supervisory Board of the Bank.

***Changes in the Management Board of Bulgarian Development Bank EAD in 2021***

By decision of the Supervisory Board under Protocol No 18 of 30.06.2021 Vladimir Rashkov Gueorguiev, Tsanko Rumenov Arabadzhiev and Krum Georgiev Georgiev were elected as new members of the Management Board. This circumstance was recorded in the Trade Register on 07.07.2021. By decision of the Management Board under Protocol No 44/30.06.2021 Mr. Vladimir Rashkov Gueorguiev and Mr. Tsanko Rumenov Arabadzhiev are authorized to represent and manage the Bank as executive directors. This circumstance was recorded in the Trade Register on 07.07.2021. Mr. Krum Georgiev Georgiev was elected for Chairman of the Managing Board.

On 14.07.2021 Nikolay Dimitrov Dimitrov and Panayot Iov Filipov were deregistered in the Trade register as members of the Management Board.

BULGARIAN DEVELOPMENT BANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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**1. ORGANISATION AND OPERATING POLICIES (CONTINUED)**

**Bulgarian Development Bank EAD (continued)**

**Significant changes in the management bodies and structure of the Bank in 2021 (continued)**

***Changes in the Audit Committee of Bulgarian Development Bank EAD in 2021***

By decision under Protocol of 25.05.2021 of the Minister of Economy exercising the rights of the sole owner of BDB the following Audit Committee members were released: Krassimir Vasilev Yordanov, Kalina Ivanova Mavrova and Rositsa Nikolova Grigorova. They were replaced by Dragomir Ivanov Vuchev, Valentin Lyubomirov Mihov and Vassil Atanasov Shtanov. By decision under Protocol of 22.06.2021 of the Minister of Economy exercising the rights of the sole owner of BDB Mr. Valentin Lyubomirov Mihov was released from the Audit Committee and by decision of 07.07.2021 Mrs. Gergana Stoyanova Moskova was elected as a member. In September 2021, the Minister of Economy approved a new Statute of the Audit Committee.

***Changes in the responsibilities of the members of the Management Board in 2021.***

After the changes in the membership of SB and MB in 2021 the organizational structure is as follows – it is separated in four directions with the following members of MB and executive directors:

**Sector № 1, with a structure subordinated to Mr. Krum Georgiev Georgiev, Chairman of MB:**

- Risk Division
- Credit Administration Division
- Non-Performing Loans Division
- Classified Information Division
- Security Division
- Personal Data Protection Officer

**Sector № 2, with a structure subordinated to Mr. Vladimir Rashkov Gueorquiev, Executive Director and member of MB:**

- Corporate Banking Division
- Investment Banking and Project Financing Division
- Legal Division
- Operations and Client Services Division
- Secretariat Department

BULGARIAN DEVELOPMENT BANK GROUP  
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**1. ORGANISATION AND OPERATING POLICIES (CONTINUED)**

**Bulgarian Development Bank EAD (continued)**

**Significant changes in the management bodies and structure of the Bank in 2021  
(continued)**

***Changes in the responsibilities of the members of the Management Board in 2021  
(continued)***

**Sector № 3, with a structure subordinated to Mr. Tsanko Rumenov Arabadzhiev,  
Executive Director and member of MB:**

- Treasury Division
- On-lending Programs Division
- International Financial Institutions and EU Funds Division
- Financial Instruments Division
- Human Resources Division
- Administrative Division

**Sector № 4, c with a structure subordinated to Mr. Jivko Ivanov Todorov, Executive  
Director and member of MB:**

- Chief Economist
- Accounting Division
- Finance Division
- Compliance Division
- Strategic and Sustainable Development Division
- Information Technology Division
- Corporate Communications Division
- Project management and processes Division

"Group Internal Audit" Division – the function for the Group's internal audit is independent and in direct communication with SB and MB.

There is a chart of the actual organizational structure of BDB as of the date of the financial statements presented on the next page.

BULGARIAN DEVELOPMENT BANK GROUP  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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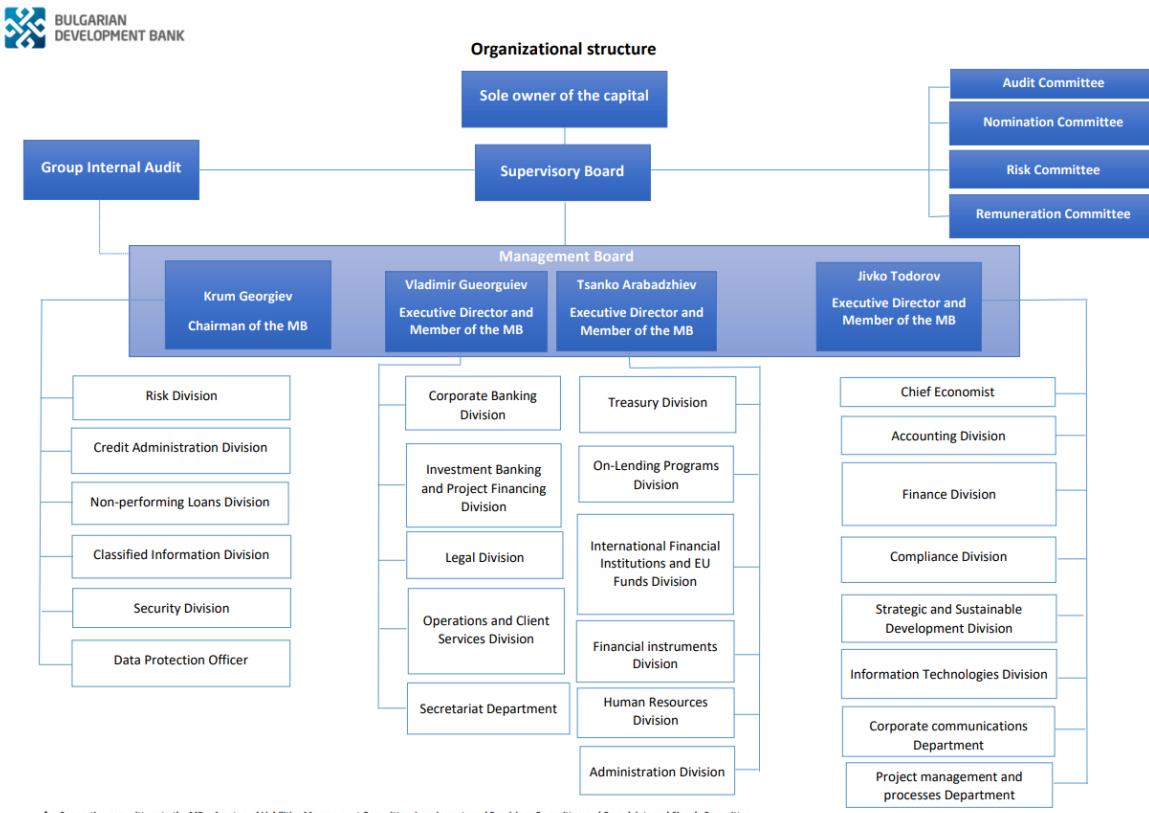
All amounts are in thousand Bulgarian Levs, unless otherwise stated

## 1. ORGANISATION AND OPERATING POLICIES (CONTINUED)

### Bulgarian Development Bank EAD (continued)

### Significant changes in the management bodies and structure of the Bank in 2021 (continued)

### *Changes in the responsibilities of the members of the Management Board in 2021 (continued)*



After the changes in MB of BDB as of June 2022 Mrs. Mariana Petkova is responsible for Sector 2 and Sector 4. The organizational structure is subject to update.

BULGARIAN DEVELOPMENT BANK GROUP  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**1. ORGANISATION AND OPERATING POLICIES (CONTINUED)**

**Bulgarian Development Bank EAD (continued)**

**Significant changes in the management bodies and structure of the Bank in 2021  
(continued)**

**Changes in the responsibilities of the members of the Management Board in 2021  
(continued)**

**Subsidiaries**

The Bulgarian Development Bank Act (2008) envisages the establishment of two Bank subsidiaries - the Capital Investments Fund AD and the National Guarantee Fund EAD. National Guarantee Fund EAD was established in 2008 with BGN 80,000 thousand share capital and Capital Investments Fund AD was established in 2018 with share capital of BGN 65,000 thousand out of which 100% paid in as of 31 December 2021 and 31 December 2020. The share of BDB in Capital Investments Fund AD is 85% and the remaining shares are owned by the National Guarantee Fund EAD.

BDB also owns 100% of the capital of BDB Microfinancing EAD, registered on 14 January 2011. The total amount of the paid-in capital amounts to BGN 14,643 thousand divided in 146,430 shares BGN 100 each (as of 31.12.2020 BGN 7,643 divided in 76,430 shares BGN 100 each).

In addition, BDB owns 100% of the share capital of the following companies established in 2019: BDB Leasing EAD with a capital of BGN 20 million as of 31.12.2021 (as of 31.12.2020: BGN 20 million) and BDB Factoring EAD with a capital of BGN 2 million as of 31.12.2021 (as of 31.12.2020: BGN 2 million).

On 23 March 2021, the MB of BDB took a decision to merge BDB Factoring EAD in BDB as BDB shall assume the activity of BDB Factoring entirely as well as its assets and liabilities. Bulgarian National Bank and Commission for protection of competition provided the necessary regulating approvals for the transformation. The procedure is to be finalized.

BULGARIAN DEVELOPMENT BANK GROUP  
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**1. ORGANISATION AND OPERATING POLICIES (CONTINUED)**

**Subsidiaries (continued)**

**Changes in the management bodies of subsidiaries in 2021**

All subsidiaries of BDB are represented jointly of either two members of the Board of Directors. The procurators of the subsidiaries of BDB may represent a company jointly with any member of the Board of Directors of the respective company.

By decision of BDB Management Board the following changes in the management bodies of BDB subsidiaries have been made:

***BDB Leasing EAD***

By Decision under Protocol of 17.08.2021 the Management Board of BDB AD in its capacity of sole owner of BDB Leasing EAD released Jivko Ivanov Todorov as a member of the company's Board of Directors. He was replaced by Krum Georgiev Georgiev. The circumstance is recorded in the Commercial Register and the register of non-profit legal entities on 23.08.2021. Mr. Krum Georgiev was elected for Chairman of the company's Board of Directors.

The Board of Directors members as of 31.12.2021 and as of the date of issue of these financial statements are:

- Krum Georgiev Georgiev – Chairman of the Board of Directors as of 23.08.2021;
- Emil Valkanov Valkanov – Executive Director and Deputy Chairman of the Board of Directors as of 20.05.2020;
- Antoniya Hristoforova Dobreva – Member of the Board of Directors as of 20.05.2020.

The company has an authorized procurator - Ivaylo Kirilov Popov as of 01.06.2020.

***BDB Factoring EAD***

By Decision under Protocol of 2.09.2021 of the Management Board of BDB EAD in its capacity of sole owner of BDB Factoring EAD Panayot Ivov Filipov and Todor Hristov Gunchev are released as members of the Board of Directors of the company and Tsanko Rumenov Arabadzhiev and Krum Georgiev Georgiev are elected as new members. The circumstances are recorded in the Commercial Register and the register of non-profit legal entities on 16.09.2021. Mr. Tsanko Rumenov Arabadzhiev is elected for chairman of the Board of Directors of the company.

The Board of Directors members as of 31.12.2021 and as of the date of issue of these financial statements are:

- Tsanko Rumenov Arabadzhiev - Chairman of the Board of Directors as of 16.09.2021;
- Georgi Vanyushev Lilyanov – Executive Director and Deputy Chairman of the Board of Directors as of 20.05.2020;

BULGARIAN DEVELOPMENT BANK GROUP  
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## **1. ORGANISATION AND OPERATING POLICIES (CONTINUED)**

### **Subsidiaries (continued)**

#### **Changes in the management bodies of subsidiaries in 2021 (continued)**

##### ***BDB Factoring EAD (continued)***

- Krum Georgiev Georgiev – Member of the Board of Directors as of 16.09.2021.

##### ***NATIONAL GUARANTEE FUND EAD***

By Decision under Protocol of 16.09.2021 of the Management Board of BDB EAD in its capacity of sole owner of National Guarantee Fund EAD Mr. Deyan Petrov Kalapchiev was elected for member of the Board of Directors of National Guarantee Fund EAD and this circumstance was recorded in the Trade Register on 27.09.2021.

##### **Board of Directors members as of 31.12.2021 are:**

- Jivko Ivanov Todorov – Chairman of the Board of Directors as of 20.05.2020;
- Todor Lyudmilov Todorov – Executive Director and Deputy Chairman of the Board of Directors as of 20.05.2020;
- Zaharina Damyanova Todorova – Member of the Board of Directors as of 20.05.2020.
- Deyan Petrov Kalapchiev - Member of the Board of Directors as of 27.09.2021.

By Decision under Protocol of 10.06.2022 of the Management Board of BDB EAD in its capacity of sole owner of National Guarantee Fund EAD Mr. Jivko Ivanov Todorov was released as a member of the Board of Directors. This circumstance was entered in the Trade Register on 23.06.2022.

##### **Board of Directors members as of the date of these financial statements:**

- Todor Lyudmilov Todorov – Executive Director and Deputy Chairman of the Board of Directors as of 20.05.2020;
- Zaharina Damyanova Todorova – Member of the Board of Directors as of 20.05.2020;
- Deyan Petrov Kalapchiev - Member of the Board of Directors as of 27.09.2021.

##### ***BDB Microfinancing EAD***

By Decision under Protocol of 17.08.2021 of the Management Board of BDB EAD in its capacity of sole owner of BDB Microfinancing EAD Mr. Vladimir Rashkov Gueorguiev was elected for member of the Board of Directors of BDB Microfinancing EAD and this circumstance was recorded in the Commercial Register and the register of non-profit legal entities on 23.08.2021. Mr. Vladimir Rashkov Gueorguiev was also elected for chairman of the Board of Directors of the company.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**1. ORGANISATION AND OPERATING POLICIES (CONTINUED)**

**Subsidiaries (continued)**

**Changes in the management bodies of subsidiaries in 2021 (continued)**

***BDB Microfinancing EAD (continued)***

By Decision under Protocol of 23.08.2021 of the Management Board of BDB EAD in its capacity of sole owner of BDB Microfinancing EAD Panayot Iovov Filipov and Angelina Georgieva Angelova were released as members of the Board of Directors of the company and Boyan Stefanov Byanov was elected as new member. These circumstances are recorded in the Commercial Register and the register of non-profit legal entities on 30.08.2021.

The Board of Directors members as of 31.12.2021 are:

- Vladimir Rashkov Gueorguiev – Chairman of the Board of Directors as of 23.08.2021;
- Ivana Borisova Tzaneva – Executive Director and Deputy Chairman of the Board of Directors as of 20.05.2020;
- Iliya Radkov Komitov – Member of the Board of Directors as of 28.08.2020
- Boyan Stefanov Byanov - Member of the Board of Directors as of 30.08.2021

By Decision under Protocol of 10.06.2022 of the Management Board of BDB in its capacity of sole owner of BDB Microfinancing EAD Mr. Vladimir Rashkov Gueorguiev was released as a member of the Board of Directors and Mariana Dimitrova Petkova was elected as a new member. These circumstances are recorded in the Commercial Register on 23.06.2022.

The Board of Directors members as of the date of these financial statements are:

- Mariana Dimitrova Petkova – Chairman of the Board of Directors as of 23.06.2022;
- Ivana Borisova Tzaneva – Executive Director and Deputy Chairman of the Board of Directors as of 20.05.2020;
- Iliya Radkov Komitov - Member of the Board of Directors as of 28.08.2020;
- Boyan Stefanov Byanov – Member of the Board of Directors as of 30.08.2021.

BULGARIAN DEVELOPMENT BANK GROUP  
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**1. ORGANISATION AND OPERATING POLICIES (CONTINUED)**

**Subsidiaries (continued)**

**Changes in the management bodies of subsidiaries in 2021 (continued)**

***Capital Investments Fund AD***

By Decisions of the general meeting of the shareholders of the company held on 30.07.2021, 13.08.2021, 7.09.2021 and 22.11.2021 new Board members are elected – Tsanko Rumenov Arabadzhiev, Stefan Stefanov Tamnev and Krasimir Tanev Atanasov. The members of the Board of Directors Nikolay Dimitrov Dimitrov, Tihomir Gochev Chemshirov and Tsvetomir Georgiev Tsanov are released. These circumstances are recorded in the in the Commercial Register and the register of non-profit legal entities on 05.08.2021, 20.08.2021, 14.09.2021 and 26.11.2021, respectively.

Mr. Tsanko Rumenov Arabadzhiev is elected as Chairman of the Board of Directors of the company and Mr. Stefan Stefanov Tamnev – as deputy chairman and Executive Director of the company.

The Board of Directors members as of 31.12.2021 and as of the date of issue of these financial statements are:

- Tsanko Rumenov Arabadzhiev - Chairman of the Board of Directors as of 5.08.2021;
- Stefan Stefanov Tamnev – Executive Director and Deputy Chairman of the Board of Directors as of 5.08.2021;
- Krasimir Tanev Atanasov – Member of the Board of Directors as of 05.08.2021.

From 21.08.2020 to 06.12.2021 the company also has an authorized procurator Angel Penev Hadjiev.

***Trade Center „Maritsa“ EOOD***

Trade Center „Maritsa“ EOOD (TC Maritsa) became an ownership of Bulgarian Development Bank AD by virtue of decision of the Bank's Management Board in accordance with Minutes No. 29 dated 18 May 2018. The main scope of activity of TC Maritsa includes the operation of concession of the Trade Center, namely a „pedestrian bridge“ in Plovdiv City, in accordance with a contract concluded with Plovdiv Municipality, through setting up trade outlets and collecting rents. The concession contract matures in 2036.

BULGARIAN DEVELOPMENT BANK GROUP  
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## **2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and adopted by the European Union (EU).

The Bank prepares separate financial statements in accordance with the Accountancy Act.

These consolidated financial statements shall be read together with the separate financial statements.

### **Statement of compliance**

These consolidated financial statements have been prepared on a historical cost basis except for the following items:

- Financial assets at fair value through profit or loss
- Financial assets at fair value through other comprehensive income
- Financial instruments carried at amortised cost
- Investment property at fair value
- Assets held for sale at the lower of their carrying amount and fair value less sales costs
- Assets acquired from collateral foreclosure carried at the lower of their acquisition cost and net realisable value.

### **Going concern**

The Group companies' management assessed their ability to continue their activities as a going concern and is confident about the availability of sufficient resources to continue their normal operations in the foreseeable future.

The Managements do not consider that there is material uncertainty that could cast doubt on the ability of the companies to continue operating as going concerns. Accordingly, these consolidated financial statements are prepared on the going concern basis.

The Bank's total equity is lower than the registered capital due to the realized losses in 2020 and 2021. In 2021, the Bulgarian Development Bank EAD submitted a proposal to the Minister of Economy, who then exercised the rights of the state as a sole owner of the BDB's capital, to take a decision to partially cover the loss on the annual financial statements for 2020 with the funds from the Reserve Fund and from the additional reserves of the Bank.

Until 18 March 2022, when the Minister of Innovation and Growth was appointed as the Bank's principal, there was no decision by the Minister of Economy on covering the loss for 2020.

On 3 May 2022, the Management Board adopted a decision to submit a proposal to the Minister of Innovation and Growth for reduction the capital of the Bank. After approval by the Supervisory Board of BDB it was sent to the Minister of Innovation and Growth. It is proposed the capital of the Bank to be reduced to BGN 1,100,000 thousand, thus the net assets of the Bank will exceed the registered capital after reporting the loss for the reporting year 2020 and 2021.

BULGARIAN DEVELOPMENT BANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

All amounts are in thousand Bulgarian Levs, unless otherwise stated

**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**Going concern (continued)**

On 23 May 2022, the Minister of Innovation and Growth approved the BDB's financial statements for 2020 and took a decision the funds from the Reserve Fund of BGN 74,939 thousand and the funds from additional reserves at the amount of BGN 80,179 thousand to be used for covering the loss of the Bank according to its annual financial statements in the same amount, and a decision the remainder of the loss of BGN 75,737 thousand. to be allocated to item "Uncovered losses".

As the Bank's equity is higher than the minimum required for banking activities and the capital adequacy is above the regulatory requirements (see Note 4.5), this does not affect the Bank's ability to continue as a going concern. Management does not consider that there is material uncertainty that may cast doubt on the Bank's ability to continue operating as a going concern. In view of the above, these consolidated financial statements have been prepared on the going concern basis.

In addition, in 2022 the Bank took action to develop its credit activity by creating new business lending programmes (see Note 40). The Bank is also in negotiations with the European Commission to gain the role of Implementing Partner for InvestEU, a programme that provides guarantees from the EU budget for lending to entrepreneurs in many areas related to green transition, digital technologies and infrastructure. The aim is for the Bank to achieve a gradual replacement of mid-2021 exposures to large enterprises with loans to SMEs. For this reason, the BDB's 2022 plans foresee a small decrease in the volume of the loan portfolio. From the beginning of 2023, it is projected the total amount of the BDB's loan portfolio to increase again and the Bank to achieve a positive financial result of its activities.

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**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**Order of liquidity and maturity structure**

The Group presents its consolidated statement of financial position in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities is presented in Note 4.3.

**Comparability of data**

The consolidated financial statements provide comparative information with respect to one previous period.

**Presentation currency**

The Bulgarian lev is the functional and reporting currency of BDB and its subsidiaries. These consolidated financial statements are presented in thousands of Bulgarian leva (BGN'000).

**Methods of consolidation**

These consolidated financial statements have been prepared in accordance with IFRS 10 "Consolidated Financial Statements", which scopes in all entities over which Bulgarian Development Bank EAD has control through ownership of:

- rights to manage all important activities of the investee;
- exposure or rights to variable return (to obtain benefits or to suffer losses from the activity) from its participation in the entity;
- possibility to exercise control over the investee in order to influence the amount of the return.

The Parent Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes in one or more of the three elements of control. Consolidation of a subsidiary begins when the Parent company obtains control over the subsidiary and ceases when the Parent company loses control over the subsidiary. Assets, liabilities, revenue and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

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**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**Methods of consolidation (continued)**

The companies consolidated and the consolidation method adopted as of 31 December 2021 are as follows:

<b>Company</b>	<b>Share</b>	<b>Consolidation method</b>
<b>National Guarantee Fund EAD („NGF“)</b>	<b>100%</b>	<b>full consolidation</b>
<b>BDB Microfinancing EAD</b>	<b>100%</b>	<b>full consolidation</b>
<b>BDB Leasing EAD</b>	<b>100%</b>	<b>full consolidation</b>
<b>BDB Factoring EAD</b>	<b>100%</b>	<b>full consolidation</b>
<b>Capital Investments Fund AD („CIF“)</b>	<b>100%<sup>2</sup></b>	<b>full consolidation</b>
<b>TC Maritsa EOOD („TC Maritsa“)</b>	<b>100%</b>	<b>full consolidation</b>
<b>Cohofarm OOD</b>	<b>0%<sup>3</sup></b>	<b>full consolidation</b>

Upon consolidation all receivables and liabilities, income and expenses, arising from transactions between the Bank and its subsidiaries, are eliminated. Unrealised losses are eliminated in the same way as the unrealised profit in case there are no indications of impairment. The subsidiaries' financial statements have been prepared for the same reporting period as that of the Parent Company and consistent accounting policies have been applied.

**Key estimates and assumptions of high uncertainty**

The preparation of the consolidated financial statements in accordance with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, and the disclosure of contingent liabilities at the date of the financial statements. These estimates are made on the basis of information available as of the date of the consolidated financial statements and therefore, the actual results may differ from these estimates. The items presuming a higher level of subjective assessment or complexity, or where the assumptions and accounting estimates are material for the consolidated financial statements, are disclosed in the notes below.

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<sup>2</sup> Bulgarian Development Bank EAD – 84.62%, National Guarantee Fund EAD – 15.38%

<sup>3</sup> BDB acquired control over Cohofarm OOD due to non-performance on a loan agreement and appointed a managing director of the company. The exit strategy provides for the sale of assets, and in these financial statements they are presented at fair value as Assets Held for Sale (see Note 26). The company's liabilities are presented as Other Liabilities - Liabilities Related to Assets Held for Sale (see Note 34). In 2021 the BDB acquired the main production assets of Cohofarm.

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**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**Key estimates and assumptions of high uncertainty (continued)**

a) Expected credit losses on assets carried at amortised cost

Monthly, the Group reviews its loan portfolio and other assets carried at amortised cost in order to detect the amount of the expected impairment losses. When assessing the amount of the impairment loss in the consolidated statement of comprehensive income, the management of the subsidiaries within the Group considers the quantitative effect of the observable indicators and data, which indicate that there is a measurable reduction in the expected cash flows from the loan portfolio as a whole, or respectively – a decrease associated with a particular loan/component from this portfolio. Such indicators and data are those that indicate the existence of an adverse change in the payment options by the borrowers from a particular group or by a particular borrower, or the presence of national, economic or other conditions that are associated with a particular risk for a given group/type of loans.

The main indicators for determining the risk groups are the debtor's financial condition and project implementation, funded by the loan, problems with servicing, including interest in arrears and maturing principal, sources of repayment and granted collateral, as a type and opportunity for realisation. Additionally, for loans, guaranteed by the European Investment Fund (EIF), the impairment loss is recognised after deduction of the portion borne by EIF (Note № 4.1).

In determining the future cash flows pattern, the Group's management uses estimates, judgments and assumptions based on its historical loss experience, adjusted with European statistical data for assets with similar credit risk characteristics, as well as objective evidence for impairment or expected impairment of the portfolio from unrealised loss in a particular component thereof. Analogous approach is used also for assessments at individual credit exposure, with respect to individually significant loans, taking into account the quality of collateral as well. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly so as to minimize the discrepancies between loss estimates and actual loss experienced (Notes 12 and 18 C).

b) Measurement of financial instruments at fair value through other comprehensive income

*Equity instruments not quoted on the stock market*

The Group classifies as financial assets at fair value through other comprehensive income its investments held in the form of non-publicly traded companies' shares / entities (less than 33% of their capital), which have been acquired with the aim to establish and develop business relations of interest to the Group. Management measures these financial assets at fair value using methods that are allowed under IFRS 13, except in cases where it has judged that the cost of acquisition (cost) better reflects their fair value, namely:

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**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**Key estimates and assumptions of high uncertainty (continued)**

b) Measurement of financial instruments at fair value through other comprehensive income (continued)

*Equity instruments not quoted on the stock market (continued)*

- When there is no sufficient and up-to-date information to enable it to measure the fair value; or
- When there is a large scope of eligible methods and/or resultant valuations of the fair value and the cost approximates most closely the fair value within a range of values calculated (Notes 9, 21).

*Equity and debt instruments quoted on stock markets*

As of 31 December 2021, the Bank conducted a detailed comparative analysis of the movements on the national and foreign stock markets of the stock market prices of public companies' shares and bonds listed for dealing held by it.

For investments in securities that are listed for dealing at stock exchange markets, management has carried out research and analyses and deems that they may be subsequently carried at fair value determined directly on the basis of completed transactions in the stock market in the last month of the financial year (Level 1). In addition, the applied prices are analysed for trends in the behaviour of stock exchange prices of the respective securities at least for the last three months of the year and respectively, to the date of issuing of the consolidated financial statements. (Notes 9, 15, 21).

The Group recognizes impairment for expected credit losses for its debt instruments in compliance with its Policy and Methodology for assessment of expected credit losses and calculation procedure.

*c) Provisions for bank and loan guarantees issued*

The Group has formed provisions for a portfolio of contingent liabilities for payment in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The Group reviews its contingent liabilities the purpose of establishing whether any events have occurred, that would confirm to a large extent the probability that a commitment will be paid to settle an obligation. If such events occur, the Group provides its liability up to the amount of its future costs related to the outflows of economic benefits/payments. These costs/losses are determined on the basis of the present value of the future net cash flows, representing the difference between the payment obligation and the possible inflows of subsequent recourse to the beneficiary user or third parties (Notes 12, 32).

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**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**Key estimates and assumptions of high uncertainty (continued)**

*c) Provisions for bank and loan guarantees issued (continued)*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as of FVTPL and do not arise from a transfer of an asset, are measured subsequently at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount recognised initially less, where appropriate, cumulative amortisation of recognised revenue.

*d) Actuarial calculations*

In assessing the present value of the long-term liabilities to employees upon retirement, actuarial methods and calculations are used based on assumptions for mortality rate, staff turnover rate, future salary levels and a discount factor considered by management as reasonable and relevant to the Group (Note № 34).

*e) Valuation of investment property*

The fair value of investment property, which management considers reasonable and adequate for the Bank, is determined by certified independent appraisers. The valuations are conducted by using various valuation techniques, such as the recoverable amount method, the method of income capitalisation, the method of market analogues, where for each method a weight is set for the purposes of achieving the final fair value of investment property at the end of the reporting period (Note 25).

*f) Assets acquired from collateral foreclosure*

Assets acquired from collateral foreclosure include assets acquired by the Group as a result of non-performing loans. These assets are measured at the lower of at cost and net realisable value. The net realisable value, which management considers reasonable and adequate for the Group, is determined by certified independent appraisers.

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**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**Key estimates and assumptions of high uncertainty (continued)**

*g) Fair value of financial instruments*

Where the fair values of financial assets and liabilities on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from the Group's historical observations and observable financial market indicators, where possible. However, where this is not feasible, a degree of judgement is required in establishing fair values. The assumptions include liquidity factors, volatility for longer derivatives and discount rates, early payments and assumptions for non-performance in connection with securities for which assets have been provided as collateral.

**2.1 Changes in accounting policies and disclosures**

***Initial application of new amendments to the existing standards effective for the current reporting period***

The following amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases"** - Interest Rate Benchmark Reform — Phase 2 adopted by the EU on January 13, 2021 (effective for annual periods beginning on or after January 1, 2021);
- **Amendments to IFRS 16 "Leases"** - Covid-19-Related Rent Concessions beyond June 30, 2021, adopted by the EU on August 30, 2021 (effective from April 1, 2021 for financial years starting, at the latest, on or after January 1, 2021);
- **Amendments to IFRS 4 Insurance Contracts "Extension of the Temporary Exemption from Applying IFRS 9"** adopted by the EU on December 16, 2020 (the expiry date for the temporary exemption from IFRS 9 was extended from January 1, 2021, to annual periods beginning on or after January 1, 2023);

The adoption of amendments to the existing standards has not led to any material changes in the financial statements of the entities within the BDB Group.

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**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**2.2 Standards issued but not yet effective and not early adopted**

Standards issued but not yet effective or not early adopted up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Bank reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt those standards when they become effective.

***Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective***

At the date of authorisation of these financial statements, the following amendments to the existing standards were issued by IASB and adopted by the EU and which are not yet effective:

- **Amendments to IAS 1 Presentation of Financial Statements:** Disclosure of Accounting policies adopted by the EU on March 2, 2022 (effective for annual periods beginning on or after January 1, 2023);
- **Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors:** Definition of Accounting Estimates adopted by the EU on March 2, 2022 (effective for annual periods beginning on or after January 1, 2023).
- **Amendments to IAS 16 "Property, Plant and Equipment"** - Proceeds before Intended Use adopted by the EU on June 28, 2021 (effective for annual periods beginning on or after January 1, 2022);
- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** - Onerous Contracts — Cost of Fulfilling a Contract adopted by the EU on June 28, 2021 (effective for annual periods beginning on or after January 1, 2022);
- **Amendments to IFRS 3 "Business Combinations"** - Reference to the Conceptual Framework with amendments to IFRS 3 adopted by the EU on 28 June 2021 (effective for annual periods beginning on or after January 1, 2022);
- **IFRS 17 "Insurance Contracts"** including amendments to IFRS 17 adopted by the EU on November 19, 2021 (effective for annual periods beginning on or after January 1, 2023),
- **Amendments to various standards due to "Improvements to IFRSs (cycle 2018 -2020)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on June 28, 2021 (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after January 1, 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.).

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**2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**2.2 Standards issued but not yet effective and not early adopted (continued)**

***New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU***

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by IASB except for the following new standards and amendments to the existing standards, which were not endorsed for use in EU as of date of publication of financial statements (the effective dates stated below is for IFRS as issued by IASB):

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after January 1, 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard;
- **Amendments to IAS 1 Presentation of Financial Statements:** Classification of Liabilities as Current or Non-current (effective for annual periods beginning on or after January 1, 2023);
- **Amendments to IAS 12 "Income Taxes"** - Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual periods beginning on or after January 1, 2023),
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- **Amendments to IFRS 17 "Insurance contracts"** - Initial Application of IFRS 17 and IFRS 9 – Comparative Information (effective for annual periods beginning on or after January 1, 2023).

The Group anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Group in the period of initial application.

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Group's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement" would not significantly impact the financial statements, if applied as of the reporting date.

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### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### **3.1 Financial instruments**

##### **Recognition of assets**

The Group recognises a financial asset or financial liability in the statement of financial position, when and only when it is part of an existing contractual relationship regulating the instrument.

The Group classifies financial assets as subsequently measured at amortised cost, at fair value in other comprehensive income or at fair value through profit or loss, as the case may be, on the grounds of:

- 1) a business model of the Group for financial assets management
- 2) the features of the contractual cash flow of the financial asset.

Regardless of its election with regard to the reporting approach, the Group has the option, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases, as per the paragraphs below:

- 1) If the Group has liabilities under insurance contracts whose measurement incorporates current information and financial assets that it considers to be related and that would otherwise be measured at either fair value through other comprehensive income or amortised cost.
- 2) if the Group has financial assets, financial liabilities or both that share a risk, and that gives rise to opposite changes in fair value that tend to offset each other.
- 3) if the Group has financial assets, financial liabilities or both that share a risk that gives rise to opposite changes in fair value that tend to offset each other and none of the financial assets or financial liabilities qualifies for designation as a hedging instrument because they are not measured at fair value through profit or loss.

A financial asset is measured at amortised cost, if both of the following two criteria are met simultaneously:

- 1) The financial asset is held within a business model with the objective to collect their contractual cash flows (Hold to Collect business model); and
- 2) The contractual terms of the financial asset lead to generation of cash flows that are solely payments of principal and interest on the outstanding interest, on specific dates (SPPI).

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.1 Financial instruments (continued)**

##### **Recognition of assets (continued)**

A financial asset is measured at fair value in other comprehensive income, if both of the following two criteria are met simultaneously:

- 1) The financial asset is held within a business model with the objective to collect the contractual cash flows and sell the financial asset, and
- 2) The contractual terms of the financial asset lead to generation of cash flows that are solely payments of principal and interest on the outstanding interest, on specific dates.

A financial asset is measured at fair value through profit or loss, unless it is measured at amortised cost or at fair value in other comprehensive income in accordance with the above criteria.

Upon initial recognition, the Group may make an irrevocable choice to include in fair value in other comprehensive income subsequent changes to an investment in an equity instrument that is not held for trading or is not a contingent remuneration recognised by a transferee in a business combination to which IFRS 3 applies.

##### **Reclassification of financial assets**

When and only when the Group changes its business model for financial asset management, it reclassifies all financial assets affected, in line with the asset classification requirements. If the Group applies such reclassification to financial assets, it shall apply it in the future, from the first day of the first reporting period following the change in business model that results in reclassifying the financial assets. The Group does not recalculate previously recognised profits, losses (including gains or impairment losses) or interest.

##### **Assessment and reporting**

Upon initial recognition, in the case of a financial asset or financial liability not stated at fair value through profit or loss, the Group measures a financial asset or a financial liability at fair value, taking into account as a probable increase and/or decrease of the transaction costs which are directly related to the acquisition or origination of the financial asset or financial liability.

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.1 Financial instruments (continued)**

##### **Determination of a business model**

The Group defines the “business model with the objective to collect their contractual cash flows (Hold to Collect business model)” as a business model where the Group’s financial assets are managed with the objective to generate cash flows through collection of contractual cash flows over the instrument’s lifetime. The Group may use this business model in the event of converting the sale of assets with increased credit risk or in order to reduce the concentration risk. These financial assets are carried at amortised cost if as described above an additional criterion is met that the contractual terms of the financial asset give rise to cash flows, which are only principal payments and interest on outstanding principal, on specific dates (SPPI).

The Group defines the “business model with the objective to collect the contractual cash flows and sell the financial asset” as a business model where the Group’s key management staff have decided that the collection of contractual cash flows and the sale of financial assets are an integral part of the achievement of the business model’s objective and includes much more frequent and of higher value sales of financial assets than a business model with the main purpose of holding financial assets to collect contractual cash flows.

These assets are reported as financial assets at fair value through other comprehensive income, if as described above an additional criterion is met that the contractual terms of the financial asset give rise to cash flows, which are only principal payments and interest on outstanding principal, on specific dates (SPPI).

The Group defines “other business models” as a business model that does not include the holding of financial assets for the purpose of collecting contractual cash flows or for the simultaneous collecting of contractual cash flows and selling financial assets. Typically, this process involves actively buying and selling financial assets. These assets are reported as financial assets at fair value through profit or loss.

##### **Financial assets**

The Group initially recognises loans, receivables and deposits on the date they were incurred. All other financial instruments (including assets and liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.1 Financial instruments (continued)**

##### **Financial assets (continued)**

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and renegotiation or modification does not result in the write-off of that financial asset in accordance with IFRS 9, the Group recalculates the gross carrying amount of the financial asset and recognises profit or loss from modification in profit or loss. The gross carrying amount of the financial asset shall be restated as the present value of renegotiated or modified contractual cash flows discounted at the initial effective interest rate on the financial asset (or the credit loss-adjusted effective interest rate for purchased or originated credit impaired financial assets) or, where applicable, the revised effective interest rate, calculated in accordance with paragraph 6.5.10 of IFRS 9. The carrying amount of the modified financial asset shall be adjusted for any incurred costs and charges that are depreciated for the remaining duration of the modified financial asset.

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or the Group transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial asset that qualify for derecognition, which is created or retained by the Group, is recognised as a separate asset or liability.

In certain circumstances, renegotiating or modifying the contractual cash flows of a financial asset may result in the write-off of the existing financial asset. Where the modification of a financial asset results in the write-off of the existing financial asset and subsequent recognition of the modified financial asset, the modified asset shall be considered a "new" financial asset for the purposes of IFRS 9.

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Group recognizes the following non-derivative financial assets:

- financial assets at fair value through profit or loss;
- financial assets at fair value through other comprehensive income;
- financial assets at amortised cost.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.1 Financial instruments (continued)**

**Financial assets (continued)**

**Financial assets at amortized cost**

Financial assets measured at amortised cost are financial assets which are held within a "held to collect" business model and that are 'solely payments of principal and interest (SPPI)'. The Group holds such financial assets within a business model with the objective to hold financial assets in order to collect contractual cash flows within the life of the asset. Such assets are initially measured at fair value plus incremental direct transaction costs. Subsequently, these financial assets are measured at their amortised cost using the effective interest rate, less any impairment losses

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts for the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortized cost of a financial liability. In calculating the effective interest rate the expected cash flows are estimated taking into account all contractual terms and conditions under the financial instrument (for example early repayment options, extension options, call options and similar), excluding expected credit losses.

The calculation includes all fees and other considerations paid or received by the contract counterparties that are an integral part of the effective interest rate, transaction costs and other premiums or discounts.

The Group accrues impairment for expected credit losses on financial assets at amortized cost for each specific asset, or at portfolio basis, when forming homogeneous portfolios with similar characteristics and risk profiles.

Financial assets measured at amortised cost include cash and cash equivalents, receivables from banks, loans and advances to customers, receivables from the State budget, securities, lease receivables and trade and other receivables.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.1 Financial instruments (continued)**

**Financial assets (continued)**

***Financial assets at fair value through other comprehensive income***

Financial assets measured at fair value through other comprehensive income include equity and debt instruments, and certain cases of loans. Financial assets measured at fair value through other comprehensive income are assets acquired under a business model with the objective of both holding to collect contractual cash flows and selling the financial assets.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- 1) the financial asset is held within a business model whose objective is both collecting contractual cash flows and selling the financial assets; and
- 2) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The debt instruments are initially measured at fair value plus transaction costs. Subsequently, changes in the carrying amount of these debt instruments as a result of foreign exchange gains and losses, impairment gains or losses, and interest income calculated using the effective interest method are recognised in profit or loss. When an investment is derecognised, the accumulated gains or losses through other comprehensive income are reclassified to profit or loss.

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as of FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.1 Financial instruments (continued)**

##### **Financial assets (continued)**

###### ***Financial assets at fair value through other comprehensive income (continued)***

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised through other comprehensive income and accumulated in the revaluation reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to reserves.

Dividends on these investments in equity instruments are recognised in profit or loss in accordance with IFRS 9 unless the dividends clearly represent a recovery of part of the cost of the investment. Upon disposal of equity instruments from this category each amount recognized in the revaluation reserve of the instruments is reclassified to retained earnings.

###### ***Financial assets at fair value through profit or loss***

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition;
- Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.1 Financial instruments (continued)**

##### **Financial assets (continued)**

###### ***Financial assets at fair value through profit or loss (continued)***

- Transaction related costs are recognized in profit or loss upon origination. Financial assets at fair value through profit or loss are measured at fair value and any related changes, including dividend income, are recognised in profit or loss.
- Upon initial acquisition, the Group's management determines whether a financial asset will be held for trading. Usually, management designates derivatives as such instruments.

A derivative is a financial instrument:

- Whose value changes in response to changes in interest rates, security prices, commodity prices, foreign exchange rates, price indices or interest rates, credit ratings or credit indices, or other variables;
- That requires no initial net investment, or one that is smaller than would be required for a contract with similar response to changes in market conditions;
- That is settled at a future date.

When upon entering a specific derivative transaction, the Group defines a position to be hedged and all the requirements of IFRS 9 have been met, the corresponding derivative is recognised as such hedging and it shall be specified whether it hedges:

- deviations in the fair value of a specific asset (fair value hedge),
- differences in the estimated future cash flows (cash flow hedge), or
- the effect of investments in foreign subsidiaries (net investment hedge).

Derivatives are measured at fair value through profit and loss.

Initially, derivative financial instruments are measured at fair value (including transaction costs) and subsequently, they are measured at fair value. Derivatives are accounted for as assets when their fair value is positive and as liabilities when it is negative.

As of 31 December 2021 and 31 December 2020, the Group has no financial assets measured at fair value through profit or loss.

##### ***Assets under trust management***

The Group provides trust management services that includes holding of or investing in assets on behalf of customers. Assets held under trust management, unless certain recognition criteria have been met, are not included in the Group's financial statements since they are not assets of the Group.

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.1 Financial instruments (continued)**

##### **Financial assets (continued)**

###### ***Assets under trust management (continued)***

Bulgarian Development Bank EAD performs services in its capacity as an investment intermediary in accordance with the provisions of the Public Offering of Securities Act (POSA). Being an investment intermediary, the Group is obliged to comply with certain requirements in order to protect its customers' interests in accordance with the Markets in Financial Instruments Act (MFIA) and Ordinance 38, issued by the Financial Supervision Commission (FSC). Moreover, the Group should also observe the requirements of Directive 2014/65/EU on the Markets in Financial Instruments (MiFID II) and Regulation 600/2014 of the EU on the Markets in Financial Instruments (MiFIR).

The Group has developed and implements organization relating to the conclusion and performance of contracts with customers, the requirement of information from customers, keeping records and storage of client's assets, in compliance with the provisions of the above-mentioned National and European legal acts. The Group has implemented a system of in-house internal control rules and procedures aiming at ensuring its full compliance with the bodies of legislation mentioned above.

##### **Financial liabilities**

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL. Financial liabilities that are not contingent consideration of an acquirer in a business combination, held-for-trading, or designated as at FVTPL, are measured subsequently at amortised cost using the effective interest method.

Initially, they are stated at fair value of cash flows received on the origination of the liability, less any transaction costs. Subsequently, any difference between the net cash flows and the residual value is recognised in profit or loss for the period using the effective interest rate method over the term of the liability. The financial liabilities reported by the Group as deposits, borrowings and securities issued are stated at amortised cost.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or, where appropriate, a shorter period, to the gross carrying amount of financial asset or to the amortised cost of financial liability. When calculating the effective interest rate the Bank estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all charges and other fees paid to or received by the contractors that are an integral part of the effective interest rate.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.1 Financial instruments (continued)**

**Derecognition of financial instruments**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when:

- 1) the contractual rights to receive cash flows from the financial asset have expired;
- 2) the contractual rights to receive cash flows from the financial assets have been transferred, or contractual rights to receive cash flows from the financial asset have been retained, but a contractual obligation has been assumed for their payment in full without material delay to a third party under a 'pass through' arrangement, and either:
  - the Group has transferred substantially all the risks and rewards of the financial asset, or
  - the Group has neither transferred nor retained substantially all the risks and rewards of the financial asset, but has transferred control of the asset.

When the Group has transferred its contractual rights to receive cash flows from a financial asset and has neither transferred nor retained substantially all of the risks and rewards of the financial asset nor transferred control of the asset, the transferred financial asset is recognised to the extent of the Group's continuing involvement in the asset. In this case, the Group recognises the related obligation. The transferred asset and the concomitant obligation are evaluated to reflect the rights and obligations, which the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Full or partial write-off of receivables is initiated in the presence of the respective amount set aside for the specific exposure and at the discretion of the Group company for their uncollectibility, respectively incomplete collection, within the usual period, which assessment is based on some the following circumstances:

1. The court actions taken under the Civil Procedure Code, the PPA and the CA have been exhausted and / or the initiation of court actions (respectively the continuation of such actions already taken) is pointless and this has been confirmed by the Legal Department;

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.1 Financial instruments (continued)**

**Derecognition of financial instruments (continued)**

2. All collateral has been realized in the course of the court actions;
3. There are no additional discovered properties or other assets owned by the debtor and / or the guarantors and severally liable debtors;
4. Additionally discovered properties or other assets owned by the debtor and / or the guarantors and severally liable debtors are non-sequestrable, i.e. the Bank cannot undertake executive actions towards them, or they are of insignificant value compared to the residual debt;
5. The Bank is not expected to collect amounts from foreclosures of shares of the main debtor and / or of the guarantors and severally liable debtors (if any) in companies and subsequent liquidation of these companies (in case it makes economic sense to initiate such liquidation);
6. There are no reasonable expectations for receiving cash flow from the initiation / continuation of legal actions in respect of the remaining collateral established in favour of the Bank, as it is determined on the basis of relevant legal opinion as unrealizable or difficult to implement due to insurmountable problems of legal nature, or there are real encumbrances in favour of another creditor in sequence prior to the established collateral in favour of the Bank;
7. The costs for compulsory sale (under Commerce Act, Civil Procedure Code or Special Pledges Act) of the debtor's property and / or of the guarantors and severally liable debtors (if any) would exceed the Bank's expected proceeds from the sale or the reduced value acceptable for the Bank;
8. As a result of an analysis of the security and the possibilities for repayment of the exposure, it has been established that it is not expected to be collected in full;
9. An order has been issued to initiate insolvency proceedings and their suspension, following a court finding that their assets are insufficient to cover the insolvency costs and, at the same time, no severally debtors are available.

In accordance with its Procedure on writing off receivables, the Group also writes off receivables on the basis of a final assessment of uncollectibility, regardless of the delay in the usual procedural period, which assessment is caused by the presence of any of the following circumstances:

1. For borrowers, severally liable debtors and guarantors who are legal entities - when traders are written off.
2. For borrowers, severally liable debtors and guarantors who are natural persons - a deceased person without accepted inheritance, or without heirs.

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.1 Financial instruments (continued)**

##### **Derecognition of financial instruments (continued)**

3. If the following circumstances are present (cumulative):

- all possible enforcement actions for collection of the receivable have been exhausted, or in case there is property owned by any of the liable persons, the costs for its forced sale (under Commerce Act, Civil Procedure Code or Special Pledges Act) would exceed the expected revenues of the Bank from the sale or the reduced value acceptable for the Bank.
- no more income is expected for repayment of debts - both from enforcement actions and from voluntary repayments.
- the costs related to taking action to write off the company from the Commercial Register are an expense that is not expected to be reimbursed.

A financial liability is derecognised from the consolidated statement of financial position when it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts of the original and new liability is recognised in the consolidated statement of comprehensive income – in profit or loss.

##### **Impairment of financial assets**

IFRS 9 requires the recognition of a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of the impairment depends on the probability of default of the debtor over the next 12 months after initial recognition, unless there has been a significant increase in credit risk, which requires the estimation of expected credit losses (ECL) over the lifetime of the financial asset.

The estimate of ECLs is based on all available, reasonable and justified information at the reporting date for past events, the current situation and the use of relevant macroeconomic indicators and reliable forecasts of future economic conditions. The key macroeconomic indicators, used by the Group, are gross domestic product, unemployment, inflation, changes in oil prices, and changes in the USD exchange rate and 3M EURIBOR. Historical analysis (10 years) shows that these indicators have statistically significant correlations – positive or negative – with the level of expected credit losses as follows:

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.1 Financial instruments (continued)**

**Impairment of financial assets (continued)**

Macroeconomic indicator	Correlation with the movement of non-performing loans volume
GDP growth (Bulgaria)	Negative
Unemployment rate (Bulgaria)	Positive
Inflation (Bulgaria)	Positive
Oil price growth (Europe)	Positive
EURIBOR 3M	Negative
USD/BGN <sup>4</sup>	Neutral

The expected credit losses are measured on the basis of three macroeconomic scenarios – realistic, negative and optimistic, which are used in the calculation of the impairment by applying different weights. For exposures that exceed BGN 5,000 thousand at related party group level or exposures classified in Stage 3, the determination of the impairment amount required for expected credit losses is made on an individual basis and, for the others, on a portfolio basis. The results obtained can be further adjusted and expected credit losses increased or reduced to reflect future risks that cannot be modelled (mainly, legislative or regulatory).

The existence of such risks is established in the periodic analyses of the exposures carried out by the Bank. The prepared individual impairment tests are reported by the responsible business units and "Risk" division to the competent authorities in the Bank, including to the Impairment and Provisions Committee in order to decide on a change of classification, to establish the existence of a restructuring and/or the amount of the impairment provision required.

The Group has drawn up a methodology that introduces criteria for classifying financial assets in three categories (the so-called "stages"), transfer criteria between them and setting an impairment amount depending on the stage in which the underlying asset is classified:

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<sup>4</sup> The indicator itself is not significant for the level of non-performing loans, but in the context of the significance of the USD for the determination of the prices of main raw materials, products and services it has indirect influence and, in some cases, it predicts the movements in GDP, inflation and petrol prices.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.1 Financial instruments (continued)**

**Impairment of financial assets (continued)**

- Stage 1 – Standard - includes financial assets without a significant increase in credit risk after initial recognition. The impairment of those assets is based on the probability of default of the debtor over the next 12 months or for a shorter period if the life of the instrument is shorter than one year;
- Stage 2 – Watch - includes financial assets with a significant increase in credit risk after initial recognition. Such an increase is presumed if the loan is past due for more than 30 days; the debtor is placed on watch; the debtor's credit rating has deteriorated at the reporting date compared to its rating on the date of recognition of the instrument, or the Group expects the credit to be restructured. In this case, the expected credit losses are calculated for the entire lifetime of the asset;
- Stage 3 – Non-performing - includes assets, for which objective evidence exists that they are impaired, such as non-performing loans. The Group has set specific criteria that determine when a debtor is in default. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset, and this loss event has affected the expected future cash flows of that asset, which can be measured reliably. The expected credit losses for these instruments are also calculated for the entire lifetime of the instrument.

The absolute threshold for the transfer of credits among the levels is linked to the internal credit rating determined by the Bank of the borrower concerned. The Group has set a credit rating of 7 as a transition limit to move to Stage 2 and credit rating 8 to move to Stage 3. In addition, the Group monitors relative indicators of increased credit risk in order to determine whether there is a significant deterioration in the risk of exposure default. These indicators are set out in the Policy and Rules for Calculation of Expected Credit Losses and Exposures' Impairment of BDB and are presented in Note 4.1.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.1 Financial instruments (continued)**

**Impairment of financial assets (continued)**

Objective evidence a financial asset is impaired includes default or delinquency by a borrower, restructuring of a liability to the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, adverse changes in the payment status of a borrower or issuer, economic conditions that lead to failures or the disappearance of an active market for a security. Any asset with default contractual payments over 90 days is categorized as "non-performing" and classified in Stage 3.

Purchased or originated credit-impaired financial assets are assets that are credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime expected credit loss since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change in the condition of these assets is reported as revaluation gain.

***Financial assets measured at amortised cost***

The Group considers evidence for impairment of financial assets measured at amortised cost at both individual and collective level. Assets with similar risk characteristics are collectively assessed for impairment.

In assessing collective impairment, the Group uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred. Impairment losses on financial assets measured at amortised cost are calculated as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e., the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.1 Financial instruments (continued)**

##### **Impairment of financial assets (continued)**

###### ***Financial assets measured at amortised cost (continued)***

Pursuant to the Policy and Rules for Calculation of Expected Credit Losses and Exposures' Impairment, the understanding of the Group of the impairment on a collective (portfolio) basis is as follows:

*„Article 32. (1) Based on a motivated proposal by Risk Department, the Bank may designate sub-portfolios of exposures with similar risk characteristics.*

*(2) The indicators underlying the establishment of a sub-portfolio are controlled and monitored at least once a year in order to identify potential unfavourable dynamics and changes in the risk profile of the portfolio.*

*Article 33. The amount of the collective impairment is determined in accordance with the methodology adopted by the Bank. It is also possible to develop additional methodologies that take into account specific risk factors for particular sub-portfolios.*

*Article 34. For groups of financial instruments the credit risk of which has increased significantly since initial recognition, a portfolio assessment can be made taking into account the information that shows a significant increase in credit risk at the level of a group or sub-group of financial instruments. Thus, the Group recognizes expected credit losses over the entire life of financial instruments the credit risk of which has increased significantly, even when there is no such evidence at the level of an individual instrument.*

*Article 35. (1) When the Group determines whether there has been a significant increase in credit risk and recognizes loss adjustments on a collective basis, financial instruments may be grouped on the basis of common credit risk characteristics with the aim to conduct an analysis to identify a significant increase in credit risk in a timely manner.*

*(2) By grouping its financial instruments, the Group complies with the principle of not impairing the quality of information available by grouping financial instruments with different risk characteristics. Common characteristics of credit risk include, but are not limited to: a type of instrument; credit risk rating; type of collateral; date of initial recognition; residual term to maturity; industry; geographical location of the borrower; and the relative value of the collateral compared to the financial asset if it affects the probability of default (for example, non-recourse loans in some jurisdictions or loan / collateral ratios)."*

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.1 Financial instruments (continued)**

##### **Impairment of financial assets (continued)**

###### ***Financial assets measured at amortised cost (continued)***

Currently, the Group has designated as portfolios for collective impairment its receivables on Energy Efficiency of Multi-Family Residential Buildings National Program (EEMFRBNP), receivables under lease agreements as well as all receivables below BGN 5 million which are not subject to individual measurement.

For the Group, impairment on an individual basis means (again, as defined in the same Policy) an assessment of the expected credit losses based on the exposure's individual parameters.

1. When the exposure is in Stage 3, an individual model is applied to the expected future cash flows from collateral realisation.
2. When the exposure is in Stage 1 or 2:
  - a. a tool is used to compare the exposure's individual characteristics (such as maturity, payment models, sectors, etc.) with probabilities of non-performance, which have been observed historically with respect to similar exposures, as well as macroeconomic parameters, sector specifics, etc.  
or
  6. an individual matrix for expected future cash flows from operations under going concern scenarios in several (at least two) scenarios with the respective weights with a total amount equal to the probability that no default will occur, as well as an individual matrix for the expected future cash flows from the disposal of collateral in a "non-going concern" scenario with a weight equal to the probability of default.

###### ***Financial assets measured at fair value through other comprehensive income***

For debt instruments measured at FVTOCI loss allowance is recognised in the statement of financial position. As the carrying amount is equal to the fair value, the loss allowance is included as part of the revaluation amount in the investment's revaluation reserve.

For equity instruments no loss allowance is recognised and every movement in the fair value is recognised in other comprehensive income until the final sale or derecognition of the security.

The absolute threshold for transferring exposures between levels is related to the internal credit rating set by the Group to the respective borrower. The Group has set a credit rating of 7 for Stage 2 transition limit and a credit rating of 8 for transition to Stage 3. In addition, the Group monitors relative indicators of increased credit risk in order to determine whether there is a significant deterioration in the risk of exposure default. These indicators are set out in the Policy and Rules for Calculation of Expected Credit Losses and Exposures' Impairment of BDB and are presented in Note 4.1. Exposures over BGN 5,000 thousand are reviewed on individual basis and, amounts below this threshold, on a portfolio basis.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.1 Financial instruments (continued)**

**Impairment of financial instruments (continued)**

***Financial guarantees contracts and credit risk guarantees***

Financial guarantee contracts are subject to analysis and impairment according to the expected credit loss analysis model. As far as no payment has occurred under these contracts, a conversion coefficient is applied, which may be between zero and one determined on the basis of historical experience, the Bank's understanding of the specific future financing needs of debtors and other relevant forward-looking information. Financial guarantee contracts under which payment on behalf of the Bank has occurred are impaired as loans to the respective beneficiary.

The credit risk guarantees assumed by BDB under the COVID-19 pandemic response programs are analysed and impaired in accordance with a separate model developed by the Bank, taking into account the specifics of both the programs (see subsection "Contingent commitments" in section 4.1 Credit risk, as well as notes 32 and 37) and the beneficiaries, as well as historical data on losses of similar credit products on the Bulgarian market. The calculated provision rates as of 31.12.2021 and 31.12.2020 are 18.7% under the loan guarantee program for legal entities and 36% under the loan guarantee program for individuals and freelance. Under these programs, the Bank reports impairment from expected credit losses at the end of 2021 at the amount of BGN 176,370 thousand (2020: at the amount of BGN 120,308 thousand) (see Notes 32 and 37).

**Fair value of financial assets and liabilities (IFRS 13)**

**Definitions**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group discloses information about the fair value of those assets and liabilities for which there is market information available and the fair value of which significantly differs from their carrying amount.

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.1 Financial instruments (continued)**

##### **Fair value of financial assets and liabilities (IFRS 13) (continued)**

###### ***Definitions (continued)***

The fair values of financial assets and liabilities that are quoted in active markets and for which there is market information available are based on announced market prices or closing prices. The use of real market prices and information reduces the need for management assessment and assumptions, as well as the uncertainty related to the determination of fair value.

The availability of real market prices and information varies depending on products and markets, and changes according to the specific events and the general financial market conditions. For some of the other financial instruments the Group determines the fair values by using of an evaluation method based on the net present value. The net present value calculation is provided by market yield curves and credit spreads, where necessary, for the respective instrument. The purpose of evaluation techniques is to determine fair value, which would be determined by direct market participants. The Group has established control environment with respect to the assessment of fair values.

The fair values of financial instruments not traded in active markets (such as derivatives not traded on the market), which are an object of a transaction between the parties, are determined using valuation techniques. These valuation techniques adhere to the use of market data when available and as less as possible to the use of specific assessments of the Group.

The fair value of equity assets not traded on the market (shares and interests in companies) is measured using one or more eligible measurement methods under IFRS 13, except where it has considered that the cost of acquisition (cost) best reflects fair value. These methods are:

- The market method - using prices and other relevant information generated by market transactions that relate to similar or identical assets, liabilities or groups of assets and liabilities (businesses)
- The cost method - using the amounts that would currently be needed to replace a specific asset or build a similar capacity and functionality asset (present value of replacement)
- The income method - which converts future amounts (cash flows or income and expenses) into a single current (discounted) amount, reflecting current market expectations for these future amounts.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.1 Financial instruments (continued)**

**Fair value of financial assets and liabilities (IFRS 13) (continued)**

**Definitions (continued)**

The choice of method used depends on the characteristics of the business, the ability to identify similar transactions or similar companies, as well as the expected return associated with the structure of the transaction. Upon subsequent measurement, the Group takes into account the methods used in the initial / previous fair value measurement and analyzes the differences in values between the periods. When changing methods and / or weights, the Group provides justification as to why it is necessary and how the new approach reflects as much as possible the fair value, as well as its change over time.

The Group classifies as financial assets at fair value through other comprehensive income its investments held in the form of non-publicly traded companies' shares / entities (less than 34% of their capital), which have been acquired with the aim to develop their business. The Group measures these financial assets at fair value using eligible measurement methods under IFRS 13, except where it has been considered that the cost of acquisition (cost) best reflects fair value.

**Fair Value Hierarchy**

The Group applies the following hierarchy for measuring and disclosing the fair value of financial instruments using valuation techniques:

- Level 1 – quoted (unadjusted) market prices in active markets for identical instruments;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable either directly or indirectly. This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data;
- Level 3 – unobservable inputs for an asset or a liability. This category includes all instruments, for which the valuation technique does not include observable inputs and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The fair value hierarchy of financial assets and liabilities is disclosed in Note 5.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.1 Financial instruments (continued)**

**Fair value of financial assets and liabilities (IFRS 13) (continued)**

**Hedge accounting (IFRS 9)**

Hedge accounting requires more extensive disclosures regarding the risk management activity. The Group's business model does not provide taking of significant market or foreign currency positions. Insofar as the Group is exposed to currency or interest rate risk, it takes appropriate measures to minimize that risk: matching the amount of active and passive exposures in the relevant currency, providing coverage of interest-bearing fixed-rate assets with similar interest-bearing fixed-rate liabilities.

The Group fully assumes the market risk arising out of its securities regardless of whether they have been held to collect cash flows or to sell.

The Group has no foreign subsidiaries to be consolidated.

The Group does not report active financial instruments designated as hedging relationship and therefore, the requirements of IFRS 9, applicable to hedges, have no effect on the Group's financial statements.

**Cash and cash equivalents**

For the purposes of the cash flow statement cash equivalents comprise cash in hand, cash in current accounts with other banks, deposits and placements with other banks – payable at sight and/or with original maturity of up to 3 months, including repo deals with original maturity of up to 3 months, as well as unrestricted (not blocked) balances with the Central Bank (BNB). The Group maintains a minimum statutory reserve according to the requirements of BNB and for the purposes of cash flow statement it includes these funds included as a component of Cash and cash equivalents. They are presented in the consolidated statement of financial position at amortised cost.

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.1 Financial instruments (continued)**

##### **Leases (IFRS 16)**

IFRS 16 defines the principles of recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e., the customer ("lessee") and the supplier ("lessor").

###### ***The Group as a lessor***

Leases where a company from the Group is a lessor are classified as a finance or operating lease. In cases when under the lease contract all the risks and rewards of using the asset are transferred to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

On the inception date of the lease, the Group recognises the assets held under a finance lease agreement in its statement of financial position and presents them as a receivable at an amount which is equal to the net investment in the lease.

The Group uses the interest rate set in the lease to determine the amount of the net investment. The interest rate set in the lease is fixed so that the initial direct costs are automatically included in the net investment.

Finance lease income is allocated during accounting periods to reflect a constant recurring rate of return on the Group's net investment.

Any modification to a lease is assessed and reflected in accordance with the requirements of IFRS 16 Leases.

The starting date of including a lease contract in the portfolio of a company of the Group is the date of providing the asset for use by the lessee by signing the acceptance – transfer protocol for the asset. In the assets of the statement of financial position the finance lease receivable is reported based on effective principal. Interest is recognised as income per month by the effective interest method.

The Group applies the derecognition and impairment requirements of financial assets under IFRS 9 Financial Instruments.

A seized asset under a terminated contract is reported as an asset for sale and is subject to subsequent disposal – direct sale or new lease. It is not reported as a fixed tangible asset unless it is offered under an operating lease agreement. Assets held for operating lease purposes are recognized as property, plant, equipment in the statement of financial position of the company /lessor/.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.2 Other assets**

**Taxes (IAS 12)**

Current income taxes are determined by the Group in accordance with the Bulgarian legislation. The income tax due is calculated on the basis of the taxable profit for the period determined in accordance with the rules established by the tax authorities on the grounds of which taxes are paid (reversed).

The tax effect relating to transactions and other events reported in the separate statement of comprehensive income is recognised also in the separate statement of comprehensive income and the tax effect relating to transactions and other events reported directly in equity is also recognised directly in equity.

Deferred income tax liabilities are recognised for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither the accounting profit nor taxable profit or (taxable loss).

Deferred income tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised except where the deferred income tax asset arises from the initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither the accounting profit nor taxable profit or (loss).

Deferred taxes are recognised as income or expense and are included in the net profit for the period, except in cases, when these taxes arise from transactions or events, reported for the same or another period directly in equity. Deferred taxes are charged to or deducted directly from equity, when they relate to items, which have been charged to or deducted from equity in the same or in a different period.

**Property, plant and equipment (IAS 16)**

Items of property, plant and equipment are presented on the consolidated financial statements at historical cost of acquisition, less any accumulated depreciation and impairment losses. The Group recognises a fixed asset when its value is equal to, or exceeds, BGN 700.

***Initial recognition***

Upon their initial acquisition, items of property, plant and equipment are valued at acquisition cost, which comprises the purchase price, including customs duties and any directly attributable costs of bringing the asset to working condition. Directly attributable costs include: costs for site preparation, initial delivery and handling costs, installation costs, professional fees for people involved in the project, non-refundable taxes, etc.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.2 Other assets (continued)**

**Property, plant and equipment (IAS 16) (continued)**

***Subsequent measurement***

The approach chosen by the Group for subsequent measurement of property, plant and equipment, is the cost model under IAS 16 – acquisition cost less any accumulated depreciation and any accumulated impairment losses.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised net in other operating income/expenses in profit or loss.

***Depreciation method***

The Group applies the straight-line depreciation method for property, plant and equipment. The useful life per group of assets is as follows:

- buildings – 50 years
- bank equipment and computers – 5 years
- motor vehicles – 5 years
- fixtures and fittings – 6.7 years

The useful life by groups was not changed compared to 2020.

The useful life of the individual groups of assets is determined by the management considering: their physical wear and tear, features of the equipment, intentions for future use and expected obsolescence. The useful life of equipment is reviewed at each year-end and adjusted prospectively in case that any material deviations from future expectations concerning the terms of use are found.

***Subsequent costs***

Repair and maintenance expenses are recognised as current in the period in which they were incurred. Subsequent expenses relating to an item of property, plant and equipment that have the nature of replacement of certain components or improvements and restructuring are capitalised to the carrying amount of the relevant asset and its remaining useful life to the date of capitalisation is reassessed accordingly. At the same time, the unamortised portion of replaced components is derecognised from the assets' carrying amount and recognised as current expenses for the period of restructure.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.2 Other assets (continued)**

**Intangible assets (IAS 38)**

Intangible assets are presented on the consolidated financial statements at cost less accumulated amortisation and any accumulated impairment losses. They include software products and software licences.

The Group applies the straight-line depreciation method for the intangible assets with a determined useful life of 5 years.

The carrying amount of property, plant and equipment and intangible assets is subject to review for impairment when events or changes in circumstances indicate that their carrying amount might exceed their recoverable amount. Impairment losses are recognised in the consolidated statement of comprehensive income.

Property, plant and equipment and intangible assets are derecognised from the consolidated financial statement when permanently withdrawn from use (upon retirement), when no future economic benefits are expected from their use or on disposal. Any gains or losses on disposal of individual assets from the groups of property, plant and equipment and intangible assets (determined as the difference between the net sales proceeds and the carrying amount of the asset at the date of the sale) are recognized net in Other operating income/(expenses) in the statement of comprehensive income.

**Investment property (IAS 40)**

The Group's management uses this category upon lease of assets acquired from collateral foreclosure on loans. Investment property is measured initially at cost plus any transaction costs. Subsequent to initial recognition, investment property is recognised at fair value.

Any gain or loss due to changes in the fair value of investment property is recognised in the profit or loss in the period in which it has occurred. The fair value of investment property is determined on the basis of a valuation made by an independent appraiser.

Investment property rental income is presented as other operating income, while operating expenses directly or indirectly relating to the generated rental income are presented as other operating expenses. Investment property is derecognised on disposal or upon withdrawal from use (retirement) when no future economic benefits are expected from its disposal. Any gains or losses on derecognition of investment property are recognised in the profit or loss in the period in which they have occurred.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.2 Other assets (continued)**

**Assets held for sale (IFRS 5)**

Assets are classified as held for sale, if their carrying amount will be recovered through a sale and not through a continuing use in the Group's operations or through renting or lease. Assets held for sale are stated initially at cost, with the transaction costs being taken into account in the initial measurement. Usually, these assets have been initially accepted by the Group as collateral and subsequently acquired as a result of a "debt against property" exchange by borrowers that do not perform their obligations in accordance with the agreed contractual terms.

Assets classified in this group are available for immediate sale in their present condition. Management is usually engaged actively and performs actions to realise a sale transaction within at least one year after the date of classification of the asset in this group.

Assets classified as held for sale are presented in the consolidated statement of financial position separately and measured at the lower of their carrying amount and their fair value less the estimated direct costs to sell.

The assets within this classification group are not depreciated.

If these assets are not realised within 12 months or 24 months in case the requirements of IFRS 5 for term extension are met, they are transferred to Assets, acquired from collateral foreclosure.

**Assets acquired from collateral foreclosure (IAS 2)**

Assets acquired from collateral foreclosure that are not realized within 12 months or 24 months in case the requirements of IFRS 5 for term extension are met, they are transferred to Assets, acquired from collateral foreclosure. They are measured at the lower of cost and net realisable value in compliance with the requirements of IAS 2 Inventories.

Cost of the assets acquired from collateral foreclosure is the sum of all direct costs incurred on the acquisition of the assets and other expenses incurred on bringing them to their current location and condition. The net realisable value is the estimated selling price in the ordinary course of business less estimated costs to complete the trade cycle and costs to sell.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.2 Other assets (continued)**

**Assets acquired from collateral foreclosure (IAS 2) (continued)**

The impairment of these assets is calculated in accordance with the Group's accounting policy based on the expected realisation of the assets acquired from collateral foreclosure. The impairment of the assets acquired from collateral foreclosure is recognised in the statement of comprehensive income. The Group's management is of the opinion that the carrying amount of the assets acquired from collateral foreclosure is the best estimate of their net realisable value at the date of the statement of financial position. Further details are provided in Note 27.

**Impairment of non-financial assets (IAS 36)**

The carrying amounts of the Group's non-financial assets, other than investment property, inventory and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist, then the asset's recoverable amount is estimated. For intangible assets with indefinite useful life or not yet brought into use, the recoverable amount is estimated annually. An impairment loss is recognised always when the carrying amount of an asset or a cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using the pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

For impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognised in profit or loss. Impairment losses recognised with respect to CGUs are allocated to reduce the carrying amount of the assets in the CGU on a pro rata basis.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.3. Liabilities**

**Financial liabilities**

The recognition and measurement of financial liabilities is described in section 3.1 Financial Instruments.

**Leases (IFRS 16)**

***The Group as a lessee***

The companies from the Group assess whether a contract is or contains a lease, at inception of the contract.

The companies from the Group recognise a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which they are the lessees, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Bank recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the companies from the Group use their incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.3. Liabilities (continued)**

**Leases (IFRS 16) (continued)**

***The Group as a lessee (continued)***

- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented in a separate item in the statement of financial position under Lease Liabilities.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group premeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is premeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.3. Liabilities (continued)**

**Leases (IFRS 16) (continued)**

***The Group as a lessee (continued)***

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that a company from the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented in separate item in the statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss in the statement of comprehensive income.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the statement of comprehensive income.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Bank allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.3. Liabilities (continued)**

**Pension and other payables to personnel under the social security and labour legislation (IAS 19)**

According to the Bulgarian legislation, the Group is obliged to pay contributions to social security and health insurance funds. The employment relations of the employees with the Group, in its capacity of an employer, are based on the provisions of the Labour Code.

***Short-term employee benefits***

Short-term employee benefits of the Group in the form of salaries, bonuses and social payments and benefits are recognised as an expense in the consolidated statement of comprehensive income in the period in which the respective service has been rendered or the requirements for their receipt have been met, and as a current liability at their undiscounted amount. The Group's obligations to make social security and health insurance contributions are recognised as a current expense and liability at their undiscounted amount together and in the period of accrual of the respective benefits they relate to.

At the end of each reporting period the Group assesses and reports the expected costs of accumulating compensated absences as the amount that is expected to be paid as a result of the unused entitlement. The assessment includes the estimated costs of employee's remuneration and the statutory social security and health insurance contributions owed by the employer on these amounts.

***Long-term retirement benefits***

In accordance with the requirements of the Labour Code, the employer is obliged to pay to its personnel upon retirement an indemnity that depending on the length of service with the entity varies between two and six gross monthly salaries as of the date of employment termination. In their nature, these are defined benefit plans.

The calculation of the amount of these liabilities requires the involvement of qualified actuaries in order to determine their present value at the date of the consolidated financial statements, at which they are included in the separate statement of financial position, adjusted with the amount of the actuarial gains and losses, and respectively, the change in their value, including the recognised actuarial gains and losses – in other comprehensive income.

Past service costs are recognised immediately in the separate statement of comprehensive income in the period in which they were incurred.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.3. Liabilities (continued)**

**Pension and other payables to personnel under the social security and labour legislation (IAS 19) (continued)**

***Long-term retirement benefits (continued)***

At the end of each reporting period, the Group assigns certified actuaries who issue a report with calculations regarding the long-term retirement benefit obligations. For the purpose, they apply the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the future cash flows, which are expected to be paid within the maturity of this obligation, and by applying the interest rates of long-term government bonds denominated in Bulgarian leva.

Actuarial gains and losses arise from changes in the actuarial assumptions and experience adjustments. Actuarial gains and losses from changes in demographic and financial assumptions upon retirement for assured length of service and age are recognised in the consolidated statement of comprehensive income.

***Termination benefits***

In accordance with the provisions of the Labour Code, the employer is obliged, upon termination of an employment contract prior to retirement, to pay indemnities as follows:

- for non-observed preliminary notice: one gross monthly salary;
- due to closing down the enterprise or part of it, outlays, reduction of the volume of work and work stoppage for more than 15 days, etc.: one gross monthly salary;
- upon termination of the employment contract due to illness: two gross monthly salaries;
- for unused annual paid leave: for the respective years of the time recognised as service period.

The Group recognises employee benefit obligations in the event of employment termination before the normal retirement date when it is demonstrably committed, based on an announced plan, to either terminating the employment of current employees without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits failing due more than 12 months are discounted to and presented in the consolidated statement of financial position at present value.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.3. Liabilities (continued)**

**Provisions and contingent liabilities (IAS 37)**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the liability. Provisions are measured on the basis of the best management's estimate at the end of reporting period of the expenses necessary to settle the particular obligation. The estimate is discounted if the obligation is long-term.

Contingent liabilities are obligations arising from past events, the existence of which can be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not entirely within the control of the Group, or it is not probable that an outflow of resources will be required to settle the obligation. They are not recognised in the consolidated statement of financial position but are subject to special disclosure.

**Financial guarantee contracts (IFRS 9)**

Financial guarantee contracts are contracts that require the issuer of the guarantee to make specified payments to reimburse the holder as a result of the failure of a third party - debtor to comply with commitments made that have been guaranteed. Financial guarantee contracts are initially measured at fair value, whereas it is accepted that the guarantee's fair value on the date of its issuance is the premium received at inception, if any. No receivables for the future premiums are recognized. Commission fee income is deferred on a straight-line basis over the period, to which such fees refer.

Subsequently, the Group's liabilities under financial guarantee contracts are measured at the higher of the amount of the loss allowance determined in accordance with IFRS 9; and the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the B Group's revenue recognition policies. The expected credit losses, related to the financial guarantees issued, are recognised in the statement of comprehensive income, under the heading Impairment of financial assets. The likelihood of an obligation for payment by the Group under such contracts is estimated based on historical experience with similar instruments.

**3.4 Capital**

**Share capital**

The share capital is stated at the nominal value of shares issued and paid. Any proceeds from shares issued over their nominal value are reported as share premium.

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### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **3.4 Capital (continued)**

##### **Share capital (continued)**

Expenses directly relating to the issuance of new shares are deducted from the capital net of any associated taxes. Dividends on ordinary shares are recognised in the period in which they were approved by the shareholders. Dividends for the period, which have been announced after the date of preparation of the financial statements, are disclosed as events after the date of the financial statements.

##### **Dividends**

An obligation for cash payables to the owners is recognised when the distribution has been approved by them and no longer depends on the Group. The corresponding amount is written off directly from equity.

#### **3.5 Income and expenses**

##### **Interest income and interest expenses (IFRS 9)**

Interest income and interest expenses are recognised in the statement of comprehensive income on an accrual basis for all interest-bearing instruments except for those measured at fair value through profit or loss, using the effective interest rate method based on the actual price of acquisition and the applicable interest rate. Interest income and interest expenses include the amortisation of any discount or premium, or any other differences between the original carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Interest income includes interest income on debt instruments measured at fair value through other comprehensive income, interest on deposits with other banks, interest on loans and advances to customers, fees and commissions on loans and advances to customers, which are an integral part of the effective yield of the financial instrument.

Interest expense is recognised on an accrual basis and comprises the interest accrued on deposits of customers and banks, as well as on loans received and other borrowings, fees and commissions on loans received, which form an integral part of the effective interest expense.

For exposures classified in Stages 1 and 2, the Bank recognizes interest income based on the effective interest rate method accrued on their gross carrying. For exposures classified in Stage 3, the Bank recognizes interest income based on the effective interest rate method accrued on their amortised cost, less impairment for expected credit losses.

The Bank also holds investments and assets in countries with negative interest rate levels. The Bank discloses the interest paid on such assets as interest expense with additional disclosure in Note 6.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.5 Income and expenses (continued)**

**Revenue from contracts with customers (IFRS 15)**

Under IFRS 15 a five-step model is applied to account for revenue arising from contracts with customers, regardless of the type of transaction or industry, requiring the Group (1) to identify the contracts with customers, (2) to identify the performance obligations in the contracts, (3) to determine the transaction price, (4) to allocate the transaction price to the performance obligations, and (5) to recognise revenue when each performance obligation is satisfied.

The Group has identified the following performance obligations under IFRS 15:

- Transaction-related services – revenue is recognised over time because the customer simultaneously receives and consumes the benefits. Due to the short time period of performance of the service revenue is recognized when the service is provided. The fees for these services are based on the Group's tariff and represent a fixed amount per transaction corresponding to the customers' benefit transferred. Considering the above circumstances, the Group applies the practical expedient under IFRS 15, paragraph B16, namely, to recognise revenue in an amount it has the right to withhold in accordance with the Tariff.
- Issuance of guarantees and letters of credit – revenue is recognized over time because the customer simultaneously receives and consumes the benefits. The transfer of the benefits to the customer is consistent over time and thus, the Group uses a straight-line method for measuring the progress of the contract, which in turn results in a straight-line amortisation of the fees over the contracted period. The fees for these services are fixed, calculated depending on the amount of the guarantee or the letter of credit.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.5 Income and expenses (continued)**

**Revenue from contracts with customers (IFRS 15) (continued)**

- Deposit maintenance – revenue is recognised over time because the customer simultaneously receives and consumes the benefits. The fees for these services are based on the Group's Tariff and represent a fixed monthly amount corresponding to the customers' benefit transferred. Considering the above circumstances, the Bank applies the practical expedient under IFRS 15, paragraph B16, namely, to recognise revenue in an amount it has the right to withhold in accordance with the Tariff.
- Brokerage operations for which the Group receives agent's commissions – revenue is recognised at a point in time upon the provision of the brokerage service as the Group operates as a broker. Considering the above circumstances, the Group recognizes revenue that is equal to the amount of the commission fee for the performance of the brokerage service. The commission fee is the net amount to be withheld by the Group after paying the portion due to the third party to which / whom the Group has mediated to perform the services of that third party.

Fees for servicing bond issues are fees for the Bank to perform the function of a trustee bank on a bond issue of a public interest entity. The fee is charged and paid periodically, in accordance with a contract.

Income from funds trusted in custody consists of fees for managing funds provided by the Ministry of Finance in relation to a loan from Kreditanstalt für Wiederaufbau extended to the Ministry of Finance. These fees are recognized when due under a contract.

The Group – except for certain operations provided to its employees – earns no income from retail banking services: the amount of deposits accepted as of 31 December 2021 is BGN 7,720 thousand. The Group has not analysed in detail the potential effect of such services on revenue due to its limited exposure to retail customers and the absence of branch network.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3.5 Income and expenses (continued)**

**Foreign currency transactions**

In preparing the financial statements, transactions in currencies other than the Group's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign currency transactions are translated into BGN at the exchange rate of BNB prevailing at the date of the transaction. Receivables and liabilities denominated in foreign currency are revalued on a daily basis. At the end of the year, they are translated in BGN at the closing exchange rates of BNB, which for the main currencies as of the date of the consolidated financial statements are the following:

<b><u>Foreign currency</u></b>	<b><u>31 December 2021</u></b>	<b><u>31 December 2020</u></b>
USD	1.72685	1.59386
EUR	1.95583	1.95583

Since 1999 the Bulgarian Lev (BGN) has been fixed to the Euro (EUR), the official currency of the European Union, at ratio of BGN 1.95583/ EUR 1.0

Net gains or losses on changes in exchange rates, which have incurred from revaluation of receivables, liabilities, as well as from foreign currency transactions, are presented on the consolidated statement of comprehensive income in the period in which they have occurred.

**4. FINANCIAL RISK MANAGEMENT**

In the ordinary course of business, the Group is exposed to a variety of risks that, if occur, could result in formation of losses and deterioration of the Group's financial stability. These risks are identified, measured and monitored through various control mechanisms in order to be managed and to prevent undue risk concentration. The process of risk management is essential for the Group's profitability and existence.

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#### **4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

The risk management within Bulgarian Development Bank Group is a complex of methods and procedures used by the Group for identifying, measuring and monitoring its risk exposures. The Group manages the following main categories of risk:

- Credit risk;
- Liquidity risk;
- Market risk;
- Operational risk.

When managing the risks, the Group applies policies and procedures relevant to the nature and complexity of its activity, which are based on best practices in banking industry.

#### **Risk management structure**

The main units that are directly responsible for risk management are as follows:

##### ***For Bulgarian Development Bank EAD (the Parent company, the Bank):***

Risk management is performed by:

- Supervisory Board – performs overall supervision of risk management;
- Management Board – responsible for the overall risk management approach and for approving risk management strategies, principles and specific methods, techniques and procedures;
- Risk Committee – responsible for exercising control over the implementation of the risk management policies by various types of risk, as well as the adequacy of the Bank's risk profile to the tasks assigned to it.
- Committee on Assets and Liability Management (ALCO) – responsible for the strategic management of assets and liabilities and for market risk management, including liquidity risk management, related to the assets and liabilities.
- Provisions and Impairment Committee – analyses credit transactions from the perspective of credit risk management for the loan portfolio in general, as well as of the level of credit deals and borrowers;
- Executive Directors and members of the Management Board – exercise current operating control of the maintenance and monitoring of the limits set for a particular types of risk and the application of the established procedures.
- The Central Bank exercises supplementary supervision of risk management by requiring periodically regulatory reports and exercising subsequent control on the compliance with the statutory maximum levels of exposure to certain risks.

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#### **4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **Risk management structure (continued)**

###### ***For the subsidiary National Guarantee Fund EAD (the Fund)***

The main units responsible for the management of risks are:

- Supervisory Board and Management Board of BDB EAD (the Parent company) – perform overall supervision of risk management; take decisions for total exposure to group of related parties to National Guarantee Fund EAD over BGN 5 million, and in case of exposure to BDB Group (but no exposure to BDB) – regardless of the amount;
- Board of Directors – responsible for the overall approach towards risk and approves risk management strategies, principles and specific methods, risk management techniques and procedures;
- Provisions Committee – analyses the guaranteed portfolio in terms of overall credit risk management of the whole portfolio, as well as of each guarantee deal and each beneficiary of the guarantee itself.
- Risk and Monitoring Department – performs monitoring of the guaranteed portfolios and the collateral provided. At least annually an inspection over the fulfilment of the economic and social requirements for the SME using a guarantee from National Guarantee Fund EAD is carried out.

###### ***For the subsidiary BDB Micro Financing EAD:***

The main units responsible for the risk management are:

- Supervisory Board and Management Board of BDB EAD (the Parent company) – perform overall supervision of risk management; take decisions for total exposure to group of related parties to BDB Micro Financing EAD over BGN 5 million, and in case of exposure to BDB Group (but no exposure to BDB) – regardless of the amount;
- Board of Directors – responsible for the adoption of risk management rules and procedures; exercising control over the risk factors of the Company and making decisions within their powers; as well as for conducting analyses of all credit transactions exceeding BGN 100 thousand in view of credit risk management upon their approval;
- Credit committee – monitors and analyses on an ongoing basis the loan and lease portfolio of the Company in terms of credit risk, including by individual transactions;
- Credit Council – analyses credit and leasing transactions in terms of credit risk management upon their approval and / or renegotiation;

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**Risk management structure (continued)**

**For the subsidiary BDB Micro Financing EAD:**

- Operational Management (Executive Director and Deputy Executive Directors) – organises the activities for the implementation of the Rules for Risk Management adopted by the Board of Directors; creates a work organisation that ensures compliance with the limits and risk levels set; exercises control over the compliance of the risk analysis, measurement and evaluation procedures with the internal documents adopted by the Board of Directors;
- Risk Management Department – develops and implements a risk management system; prepares and submits to the Board of Directors periodic reports for assessing the operational risks, including the observance of the limits, and reports on an ongoing basis to the Operational Management of the Company; performs initial and ongoing validation of the risk assessment methods; examines the inputs needed for the risk assessment in accordance with applicable principles of reliability and sufficiency.

**For the subsidiary BDB Leasing EAD (the Company):**

Risk management is performed by:

- Supervisory Board and Management Board of BDB EAD (the Parent company) – perform overall supervision of risk management; take decisions for total exposure to group of related parties to BDB Leasing EAD over BGN 5 million, and in case of exposure to BDB Group (but no exposure to BDB) – regardless of the amount;
- Board of Directors – responsible for the adoption of risk management rules and procedures; exercising control over the risk factors and making decisions for exposures over BGN 5 million;
- Procurator and member of the Board of Directors jointly – make decisions for exposures up to BGN 200 thousand;

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#### **4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **Risk management structure (continued)**

###### ***For the subsidiary BDB Factoring EAD (the Company):***

The main units responsible for the risk management are:

- Supervisory Board and Management Board of BDB EAD (the Parent company) – perform overall supervision of risk management; take decisions for total exposure to group of related parties to BDB Factoring EAD over BGN 5 million, and in case of exposure to BDB Group (but no exposure to BDB) – regardless of the amount;
- Board of Directors – responsible for the adoption of risk management rules and procedures; exercising control over the risk factors of the Company and making decisions within their powers; as well as for conducting analyses of all credit transactions in view of credit risk management upon their approval;
- Operational Management (Executive Director) – organises the activities for the implementation of the Rules for Risk Management adopted by the Board of Directors; creates a work organisation that ensures compliance with the limits and risk levels set; exercises control over the compliance of the risk analysis, measurement and evaluation procedures with the internal documents adopted by the Board of Directors;
- Risk Management Department – develops and implements a risk management system; prepares and submits to the Board of Directors periodic reports for assessing the operational risks, including the observance of the limits, and reports on an ongoing basis to the Operational Management of the Company; performs initial and ongoing

###### ***For the subsidiary Capital Investments Fund AD:***

Risk management is performed by:

- Supervisory Board and Management Board of BDB EAD (the Parent company) – perform overall supervision of risk management; take decisions for total exposure to group of related parties to Capital Investments Fund AD over BGN 5 million, and in case of exposure to BDB Group (but no exposure to BDB) – regardless of the amount;
- Board of Directors – responsible for the adoption of risk management rules and procedures; exercising control over the risk factors and making decisions for all exposures;

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#### **4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **Risk management structure (continued)**

###### ***For the subsidiary TC Maritsa EOOD:***

The risk management functions are exercised by the operational units – General Manager and Finance Manager. The activity of TC Maritsa does not include financial assets acquisition and management.

##### **Measurement and management of major risks**

Management of the Group companies has adopted a set of internal rules and procedures for measuring various risks, which are based on statistical models and best international banking practices, as well as on the historical experience of the Group itself.

Risk monitoring and management are primarily based on limits. Those limits reflect on the Group's strategy and its market position, as well as on the level of risk that can be borne. Reports on the specific types of risks are periodically prepared for the purpose of subsequent analysis and possible adjustments of already set limits.

###### **4.1. Credit risk**

Credit risk is the risk of potential losses due to a failure of the Group's customers to discharge their contractual obligations in connection with receivables and financial instruments held by the Group, incl. country (sovereign) risk, contractor's risk and settlement risk, and credit risk of concentration.

Credit risk is the main risk for the Group and therefore, its management is fundamental for its activity. Credit risk management is performed in accordance with the Bulgarian Development Bank EAD Act and the effective laws and regulations of the Republic of Bulgaria regulating credit activity, as well as the international regulations and best banking practices, and the requirements of IFRS.

In assessing and managing credit risks (including the counterparty risk) of its exposures, the Group applies internal rating generation models. These internal rating models depend on the specifics of the object being rated.

The so-developed rating models for credit risk assessment of corporate clients of the Group are based on an analysis of historical data and the counterparty's and its relating parties' current financial position; their history and behaviour in servicing their liabilities to other contractors; future cash flow analyses; sources of servicing the existing and any potential future liabilities to the Group, and other parameters specific to a particular transaction. Credit portfolio quality monitoring, control and assessment units are established and function within the Group. Credit portfolio current monitoring, reporting and management procedures and mechanisms are implemented, which require periodical, and if necessary, extraordinary, reports on the financial and credit status of each borrower and other liable persons. There is an „Early Warning Procedure for Corporate Credit Clients”, which includes an early warning system of signals and actions.

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#### **4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **4.1. Credit risk (continued)**

In managing its credit risk, the Group applies an intra-bank system of limits that is subject to periodic review and updating.

There is a specialized unit functioning within the Group, which is in charge of the risk assessment both at the customer level and at the exposure level, where the solvency level is assessed and monitored throughout the entire loan term - from application to full repayment. The credit risk is partially reduced also by applying the secured credit line technique through accepting different types of collateral, where at any point in time the valuation of collateral shall not be older than 12 months.

The Group forms impairment on exposures depending on the borrower's and / or group of related clients' risk profile based on conducted individual impairment tests.

The exposures in the Group's corporate credit portfolio are classified mainly in three categories depending on the existence of indications of impairment – changes in the objective indicators on the basis of which the initial measurement and subsequent monitoring of exposure / customer are carried out, which would result in changes in cash flows from financial assets, including default in payment due by the borrower: Stage 1: „Standard“ (with assigned internal credit ratings from 1 to 6, incl.); Stage 2 „Watch“ or „Forborne“ (with assigned internal credit ratings of 7) and Stage 3 „Problematic/Non-performing“ (with assigned internal credit ratings of 8, 9 or 10). These indicators are set out in the Policy and Rules for Calculation of Expected Credit Losses and Exposures' Impairment of BDB and are presented in Note 4.1. Loans over BGN 5,000 thousand are reviewed for existence of these indicators on individual basis and, amounts below this threshold, on a portfolio basis.

In the case of customers, for which there are currently no indications of increased risk, the Group periodically (at least once a year) reviews the financial and legal status, including the collateral accepted, in order to establish the need for a change in the percentage of impairment for loss risk and / or change in the assessment of the degree of credit risk. Clients with a higher credit risk are subject to a review in every 6 months and those classified as „problematic/non-performing“, in every three months.

In follow-up of the recommendations of the Basel Committee and their transposition into regulations within the European Union and in particular, Regulation 575/2013/EU and Directive 2013/36/EU, the commercial banks are required to implement in their internal regulations an in-house rating system that allows them to achieve comparability with the borrowers' official crediting rating assigned by recognized external credit rating institutions, which adopts the scale, used worldwide, of ten credit rating categories, including two categories for non-performing loans.

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.1. Credit risk (continued)**

The Group has developed a detailed internal normative base, comprising Policy and rules for determining the impairment due to uncollectability of risk exposures, Methodology for credit risk analysis and assessment of Bulgarian Development Bank EAD, and Credit activity manual of BDB, ensuring full compliance of the policy and procedures for determining internal credit ratings with the above EU regulations. The amount of the impairment is calculated as the difference between the current amount of the amortised cost of the customer's exposure to the Group and its recoverable amount.

The Group accrues impairment on a portfolio basis for its receivables on the EEMFBNP and exposures to individuals.

Aiming at minimizing and reducing the credit risk, the Group accepts collateral in accordance with its in-house rules. It is a common practice of the Group to require collateral from the borrowers that is equal to at least 100% of the agreed loan amount, and valuations from accredited independent valuers are required.

Based on a Guarantee letter from year 2003 and the subsequent annexes signed with the European Investment Fund (EIF), the parent company (the Bank) participates in the EU SME Guarantee Facility under conditions determined by the long-term EU Program on SMEs. EIF is committed to provide a direct guarantee covering 50% of the remaining loss on the principal and interest of each loan, included in the sub-portfolio of the Bank, formed on the basis of the conditions of the agreement, but not exceeding EUR 2,520 thousand (BGN 4,929 thousand). The Bank has applied reduced requirements in, accepting collaterals for the EIF-guaranteed portfolio of loans. As of 31 December 2021, the total exposure on EIF-guaranteed loans amounted to BGN 241 thousand (31 December 2020: BGN 735 thousand). This amount includes the utilised but not yet repaid portion of the loans, as well as the BDB's commitments on unutilised loans. The payment engagement of EIF to date amounts to BGN 3,563 thousand (31 December 2020: BGN 3,563 thousand), whereas the losses covered by EIF amount to BGN 364 thousand (31 December 2020: BGN 364 thousand).

In November 2016, the parent company (the Bank) signed a counter-guarantee agreement with the European Investment Fund (EIF) under the COSME program for small and medium-sized enterprises. The COSME program is implemented with the support of EFSI (the European Fund for Strategic Investment), known as the "Juncker Plan". The parent company (the Bank) is able to cover up to 60% of the risk on loans extended to SMEs by commercial banks it will partner with. Half of this risk will be counter-guaranteed by EIF and the total amount of the counter-guarantee is EUR 10 million. By using the resource guaranteed by the COSME program, the banks-partners to the parent company (the Bank) will be able to extend investment loans and loans for working capital, bank guarantees and revolving loans. The maximum amount of loans extended is EUR 150,000. The term of repayment varies from 1 to 10 years.

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#### **4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **4.1. Credit risk (continued)**

As of 31 December 2021 and 2020, there were no amounts claimed by the Bank under the counter-guarantee agreement.

Off-balance sheet commitments, primarily the unutilised portion of authorized loan facilities, letters of guarantee and letters of credit, which represent an irrevocable commitment of the Group to make payment if a client is not able to fulfil its obligations to third parties represent another source of credit risk for the Group and bear the same credit risk as the balance sheet loan exposures.

The Parent company (the Bank) forms various sub-portfolios based on the type of contractors and credit risk carriers, as follows:

- Direct lending –portfolio of credit commitments with debtors-legal entities, other than bank financial institutions, and loans to individuals (loans to Bank's employees), as well as subjects from the public sector;
- Indirect lending or „on-lending“ – portfolio of loans to financial (banking and non-banking) institutions, the purpose of which is to provide financing/to facilitate the access to financing for micro, small and medium-sized enterprises in the Republic of Bulgaria;
- Financing by the National Program for Energy Efficiency of Multi-Family Residential Buildings in compliance with CMD 18 of the CoM;

Beyond the credit portfolio, the Group's activity is exposed to credit risk also with respect to exposures related to other activities of the Group:

- portfolio of financial instruments, other than loans, formed in connection with the Group's free cash management, which comprises mainly government securities issued by the Republic of Bulgaria and other EU countries, classified as Financial Assets at Fair Value Through Other Comprehensive Income;
- to banks in connection with money market transactions, placed term deposits and available balances in Nostro accounts;
- receivables relating to the State budget.

The Group applies a system of limits relating to credit risk and concentration risk with respect to the different sub-portfolios, and currently monitors the credit risk of concentration of financial assets on the basis of industry criteria, and also by individual counterparty, and insurance companies ensuring coverage. Regarding the Group's direct credit portfolio, the allocation by economic sectors is monitored, as also that to clients and groups of related parties, by observing internal limitations (limits) for concentration of the corporate credit portfolio by economic sectors.

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.1. Credit risk (continued)**

**Maximum exposure to credit risk**

Exposure to credit risk attributable to financial assets recognised in the consolidated statement of financial position is as follows:

<b>Financial asset</b>	<b>2021</b>		<b>2020</b>	
	<b>maximum</b>	<b>net</b>	<b>maximum</b>	<b>net</b>
Cash in hand and balances in current account with the Central Bank	243,635	243,635	496,279	496,279
Receivables from banks	387,438	385,348	480,688	478,700
Financial assets at amortized cost – Loans and advances to customers	2,042,171	1,695,802	2,087,855	1,829,250
Financial assets at amortized cost - Receivables from the State budget	18,866	18,817	57,975	57,824
Financial assets at amortized cost - Net investment in finance lease	58,424	56,977	40,382	39,611
Financial assets at amortized cost – Securities	12,170	11,980	12,204	12,056
Financial assets at fair value through other comprehensive income – Debt instruments	657,649	657,649	649,573	649,573
Financial assets at fair value through other comprehensive income – Equity instruments	70,781	70,781	57,709	57,709
Other financial assets	5,364	4,888	16,468	16,021
	<b>3,496,498</b>	<b>3,145,877</b>	<b>3,899,133</b>	<b>3,637,023</b>

Receivables from the State Budget comprise loans on the Energy Efficiency of Multi-Family Residential Buildings National Program (EEMFRBNP) amounting to BGN 18,866 thousand (2020: BGN 57,975 thousand).

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.1. Credit risk (continued)**

**Maximum exposure to credit risk (continued)**

The exposure to credit risk arising out of off-balance sheet commitments is as follows:

	2021		2020	
	maximum	net	maximum	net
Loan guarantees under anti-COVID programs	680,938	504,568	479,462	359,154
Bank guarantees and letters of credit	377,346	361,043	434,088	411,926
Unutilised amount of authorized loans	209,829	209,777	264,318	264,238
Uncalled part of shares of Three Seas Initiative	25,031	25,031	25,399	25,399
Participation in the SIA investment program	861	861	1,006	1,006
<b>Maximum exposure to credit risk</b>	<b>1,294,005</b>	<b>1,101,280</b>	<b>1,204,273</b>	<b>1,061,723</b>
	<b>4,790,503</b>	<b>4,247,157</b>	<b>5,103,406</b>	<b>4,698,746</b>

In assessing the net exposure, accrued impairment and provisions, highly liquid collateral (government securities and cash), as well as the net present value of liquid collateral – real estate, have been taken into account.

**Credit risk - concentration**

The largest credit exposure of the Group to a group of related parties /other than bank institutions/ amounts to BGN 182,419 thousand (including BGN 147,727 thousand balance sheet debt, BGN 31,635 thousand for utilization and BGN 3,057 thousand guarantees) at amortised cost (31.12.2020: BGN 198,839 thousand), which represents 16.85% of Group's equity/eligible capital ratio according to Regulation 575/2013/EU (31.12.2020: 18.20%). The concentration of client's portfolio (other than bank institutions) is presented in the following table:

	2021*	% of equity	2020*	% of equity
			2020*	
The largest total exposure to a customer group	179,362	16.57%	192,302	18.20%
Total amount of the ten largest exposures	1,072,890	99.10%	1,111,600	105.18%
Total amount of the twenty largest exposures	1,440,658	133.08%	1,625,663	153.82%

\* The amount of the exposure net of impairment and highly liquid collateral.

There is no exposure to a customer or a group of related customers as of 31 December 2021, exceeding 25% of Group's equity.

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.1. Credit risk (continued)**

**Credit risk – concentration (continued)**

The financial assets of the Group, classified by industry sectors, are presented in the table below. Loans to customers, as also finance leases and securities at amortized cost, are stated at amortised cost before impairment:

<b>Sectors</b>	<b>2021</b>	<b>%</b>	<b>2020</b>	<b>%</b>
Government	787,192	22.51	848,268	21.76
Industry, total	388,468	11.11	538,644	13.81
<i>Industry – energy generation and distribution</i>	<i>105,404</i>	<i>3.01</i>	<i>115,818</i>	<i>2.97</i>
<i>Industry – other industries</i>	<i>145,513</i>	<i>4.16</i>	<i>149,348</i>	<i>3.81</i>
<i>Industry – manufacture of food products</i>	<i>46,465</i>	<i>1.33</i>	<i>46,823</i>	<i>1.20</i>
<i>Industry – manufacture of tobacco products</i>	<i>-</i>	<i>-</i>	<i>148,640</i>	<i>3.81</i>
<i>Industry – manufacture of plant and equipment</i>	<i>91,086</i>	<i>2.61</i>	<i>78,015</i>	<i>2.00</i>
Financial services	839,582	24.01	1,192,907	30.59
Trade	651,018	18.62	459,843	11.80
Transport	215,128	6.15	258,599	6.63
Tourist services	275,154	7.87	268,536	6.89
Construction	180,018	5.15	166,101	4.26
Real estate transactions	57,903	1.66	58,149	1.49
Agriculture	35,644	1.02	48,521	1.24
Collection and disposal of waste	612	0.02	-	-
Other industries	65,779	1.88	59,565	1.53
	<b><u>3,496,498</u></b>	<b><u>100</u></b>	<b><u>3,899,133</u></b>	<b><u>100</u></b>

The total amount of exposures includes those to Central Banks, as well as cash in hand which are considered as no credit bearing risk.

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.1. Credit risk (continued)**

**Quality of financial assets**

The structure of the financial assets of the Group by risk classification groups is as follows:

<b>As of 31 December 2021</b>	<b>Standard (Stage 1)</b>	<b>Watch (Stage 2)</b>	<b>Non- performing (Stage 3)</b>	<b>Total</b>
Cash in hand and balances in current account with the Central Bank	243,635	-	-	243,635
Receivables from banks	387,438	-	-	387,438
Loans for commercial property and construction	396,453	190,902	139,394	726,749
Trade loans	532,497	457,696	132,177	1,122,370
Net investment in finance lease	53,354	4,160	910	58,424
Consumer loans	1,918	6	7	1,931
Residential and mortgage loans to individuals	2,032	-	-	2,032
Loans to other financial institutions	49,820	-	6,965	56,785
Other loans and receivables	36,964	66,920	28,420	132,304
Receivables from the State budget	18,866	-	-	18,866
Financial assets at amortized cost – Debt securities	12,170	-	-	12,170
Financial assets at fair value through other comprehensive income – Debt instruments	657,649	-	-	657,649
Other financial assets	4,888	-	476	5,364
<b>Total financial assets</b>	<b>2,397,684</b>	<b>719,684</b>	<b>308,349</b>	<b>3,425,717</b>

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.1. Credit risk (continued)**

**Quality of financial assets (continued)**

As of 31 December 2020	Standard (Stage 1)	Watch (Stage 2)	Non- performing (Stage 3)	Total
Cash in hand and balances in current account with the Central Bank	496,279	-	-	496,279
Receivables from banks	480,688	-	-	480,688
Loans for commercial property and construction	431,104	215,197	110,623	756,924
Trade loans	766,683	207,013	105,126	1,078,822
Net investment in finance lease	39,697	73	612	40,382
Consumer loans	1,076	17	11	1,104
Residential and mortgage loans to individuals	1,150	-	-	1,150
Loans to other financial institutions	57,359	-	8,061	65,420
Other loans and receivables	26,679	117,528	40,228	184,435
Receivables from the State budget	57,975	-	-	57,975
Financial assets at amortized cost – Debt securities	12,204	-	-	12,204
Financial assets at fair value through other comprehensive income – Debt instruments	649,573	-	-	649,573
Other financial assets	16,021	-	447	16,468
<b>Total financial assets</b>	<b>3,036,488</b>	<b>539,828</b>	<b>265,108</b>	<b>3,841,424</b>

The table below presents the types of collaterals, received by the Group in relation to loans granted, at fair value determined by accredited independent valuers and confirmed by a Group's employee holding the necessary licence.

<b>Type of collateral</b>	<b>2021</b>		<b>2020</b>	
	<b>Fair value</b>	<b>%</b>	<b>Fair value</b>	<b>%</b>
Mortgages	543,788	57.9	841,503	60.1
Pledges of plant, machinery, equipment, and inventories	288,241	30.7	316,974	22.7
Mortgages on ships	46,432	4.9	97,276	7.0
Credit risk insurance	23,612	2.5	64,280	4.6
Restricted deposits	36,653	3.9	57,968	4.1
Securities quoted on an exchange	-	-	20,536	1.5
Bank guarantees	635	0.1	804	0.1
<b>Total collateral</b>	<b>939,361</b>	<b>100</b>	<b>1,399,341</b>	<b>100</b>

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.1. Credit risk (continued)**

**Quality of financial assets (continued)**

Credit exposures could have more than one collateral, i.e. it could be included in more than one position. The amount of the collateral could exceed 100%, as more than one collateral could be provided to secure one loan.

At the request of the contractors, a Group company is able to re-negotiate the initial terms and conditions on the contract. Usually, these are the terms of loan utilization, loan amount, interest rates and/or repayment schedules from the point of view of the amount of a particular repayment instalment. Most of all, these are cases of changes in the initial parameters, purpose and scope, and respectively, the time schedule of projects. Upon renegotiation, the changes in preliminary terms and conditions are analysed in order to establish whether these changes represent a concession (discount) in favour of the debtor and the exposure should be accepted as restructured and therefore, to be reclassified to Stage 2 or Stage 3 pursuant to the Policy and Rules for Calculation of Expected Credit Losses and Exposures Impairment of BDB, which is applied by the Group entities by monitoring the exposures for indicators of impairment, which may lead to impairment in a future period. These indicators are as follows:

*„Article 11. Indicators of impairment:*

*(1) Significant increase in credit risk, which results in recognition of a lifetime expected credit loss for the instrument (i.e. transition from a 12-month expected credit loss) and respectively, classification in Stage 2 (Watch) would be a consequence of the following circumstances:*

- 1. significant changes in internal credit risk indicators as a result of a change in credit risk relative to the beginning of the life of the asset;*
- 2. other changes in interest rates or the conditions of an existing financial instrument that would be materially different if the instrument was newly granted or issued at the date of the financial statements (for example, more stringent terms and conditions, increased collateral or warranty requirements) due to changes in the credit risk of the financial instrument compared to that of its initial recognition;*

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.1. Credit risk (continued)**

**Quality of financial assets (continued)**

3. *significant changes in the external market indicators of credit risk for a particular financial instrument or similar financial instruments with the same life expectancy. Changes in credit risk margins include, but are not limited to:*
  - a) *credit spread;*
  - b) *the credit default swap price for the borrower;*
  - c) *duration of the period or the extent to which the fair value of a financial asset is lower than its amortized cost; and*
  - d) *changes in the price of borrower's debt and equity instruments;*
  - e) *any other market information about the borrower.*
4. *actual or expected significant change in the financial instrument's external credit rating (or of the debtor);*
5. *actual or expected downgrade of the borrower's external credit rating or a downgrade in the scoring rating used to measure credit risk;*
6. *existing or expected adverse changes in business, financial or economic conditions, for which it is expected to result in a significant change in the borrower's ability to perform its obligations.*
7. *actual or expected significant change in the borrower's operating results, such as actual or expected decreasing revenue or margins, increase in operating risks, working capital shortage, asset quality deterioration, increased leverage, low liquidity, management problems or changes within the scope of business or organisational structure that results in a significant change in the borrower's ability to perform its obligations on the debt;*
8. *significant increases in credit risk for other financial instruments of the same borrower;*
9. *actual or expected significant adverse change in the borrower's regulatory, economic or technological environment, which has resulted in a significant change in the borrower's ability to perform its obligations;*
10. *significant changes in the value of the debt collateral or in the quality of guarantees and additional credit protection provided by a third party that are expected to reduce the economic incentive of the borrower to make scheduled contractual payments or to otherwise impact on the probability of default on the loan;*
11. *significant change in the quality of a guarantee provided by a shareholder (or by the owner of an entity) if the shareholder (owners) has an incentive and financial opportunity to prevent default through an increase in capital and / or cash;*

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.1. Credit risk (continued)**

**Quality of financial assets (continued)**

12. *significant changes, such as a reduction in financial support from a parent company or other subsidiary, or actual or expected significant change in the quality of credit protection that is expected to reduce the economic incentive for the borrower to make contractual payments.*
13. *expected changes in the loan documentation, including an expected breach of the contract, which may lead to the debtor being released from the obligation to comply with contractual commitments or amendments to the contract, interest rates, interest rate increases, requirements for additional collateral or guarantees, or other changes in the contractual framework of the instrument;*
14. *significant changes in the expected results and behaviour of the borrower, including changes in the creditworthiness of the borrowers within the group;*
15. *specific changes in the Bank's approach for managing the loan in relation to the financial instrument; for example on the basis of newly emerging indicators of a change in financial instrument's credit risk, it is expected that the Bank's credit risk management practice will become more active or focused on instrument management, including more prudent or stringent monitoring, or active intervention in the relationships with the borrower;*
16. *information on arrears, including cases of amounts past due by more than 30 days (if there is evidence that a significant number of defaulting debtors for more than 30 days have not reached the stage of significant deterioration, this threshold may be increased; however, extensive supporting data will be required in accordance with the provision of paragraph B5.5.19 of IFRS 9);*
17. *initiation of court proceedings; claiming of bank guarantees or other circumstances that are expected to result in significant costs for the borrower;*
18. *considerable delay in the provision by the borrower of financial and other necessary information;*
19. *undertaking of significant obligations of the borrower towards third parties, incl. off balance sheet, which would result in difficulties or inability to properly service the Bank's credit exposure.*

(2) *Events related to a classification where a financial instrument is classified in Stage 3, i.e. it is considered to be an asset with deteriorated credit quality and which, in most cases, correspond to the definition of default on the instrument, include:*

1. *significant financial difficulties of the debtor;*
2. *past due or unpaid liabilities to the Bank for more than 90 days;*
3. *provision of a concession to the debtor in view of its financial difficulties, which would otherwise not have been provided by the Bank;*

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.1. Credit risk (continued)**

**Quality of financial assets (continued)**

- a) if, as a result of the re-negotiation and provision of a concession to the debtor resulting in changes of cash flows the asset is derecognised and a new one is created (initially recognised), the Bank estimates only the 12-month expected loss. Further analysis of the expected credit loss is carried out if an increased credit risk exists.*
- b) if, as a result of the re-negotiation and provision of a concession to the debtor resulting in changes of cash flows the asset is derecognised and a new one is created (initially recognised), but as a consequence the latter is reported as an impaired asset acquired / occurred, the Bank recognises the cumulative changes in the expected credit losses over its entire life.*
- c) if, a result of the re-negotiation and provision of a concession to the debtor, the financial asset is not derecognised, the Bank analyses whether there is a significant increase in credit risk, comparing:
  - (aa) the risk of default assessed at the reporting date (based on changed contractual terms); and*
  - (bb) the risk of default assessed at initial recognition (on the basis of the original unchanged contractual terms);**in order to establish whether it should recognise lifetime expected credit losses or 12-month expected credit losses;**

- 4. high probability of insolvency of the debtor or other financial reorganization of the debtor;*
- 5. other evidence of deterioration in the debtor's creditworthiness."*

The analysis should also determine whether the modification is material to an extent that justifies the derecognition of the asset or recognition of a new one.

In 2020 and 2021 the Bank carried out an analysis of the effect of the modifications on the exposures in its portfolio, including those made within a private moratorium in relation to the Covid-19 pandemic, with the objective of determining whether some of them may indicate a necessity for derecognition and recognition of a new asset. As a result of the analysis, it was estimated that the effect of the modifications is insignificant.

The analysis of the changes in the values of the main group of financial assets and their impairment are presented in sub-section ECL Reporting in this section.

Regarding the loans extended under the National Programme for Energy Efficiency of Multi-Family Buildings (NPEEMFB), it should be noted that according to the programme's parameters the amount of the loan approved is subject to regular updating in order to ensure expenditure control. The signing of annexes to the loan contracts, by means of which the financial parameters are updated, is a result of those controls.

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.1. Credit risk (continued)**

**Quality of financial assets (continued)**

The table below presents data on the portfolio amount of the Group's financial assets by type of instrument:

Financial assets measured at amortized cost							FA measured at fair value through OCI	
Non-financial institutions	State budget	Financial institutions	Individuals	Cash in hand and balances in current account with the Central Bank	Securities	Net investment in finance lease	Other financial assets	Debt instruments
<b>At 31 December 2021</b>								
<b>Impaired on an individual basis</b>								
-standard (Stage 1)	625,622	-	1	-	10	12,170	267	4,888
-watch (Stage 2)	696,551	-	-	-	-	-	20	-
-non-performing (Stage 3)	206,306	-	-	-	-	-	910	476
<b>Gross amount</b>	<b>1,528,479</b>	-	<b>1</b>	-	<b>10</b>	<b>12,170</b>	<b>1,197</b>	<b>5,364</b>
Incl. renegotiated	1,438,103	-	-	-	-	-	-	-
<b>Past due but not impaired</b>								
-standard (Stage 1)	-	-	-	-	-	-	-	-
-watch (Stage 2)	-	-	-	-	-	-	-	-
-non-performing (Stage 3)	46,180	-	-	-	-	-	-	-
<b>Gross amount</b>	<b>46,180</b>	-	-	-	-	-	-	-

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.1. Credit risk (continued)**

**Quality of financial assets (continued)**

Financial assets measured at amortized cost								FA measured at fair value through OCI	
	Non-financial institutions	State budget	Financial institutions	Individuals	Cash in hand and balances in current account with the Central Bank	Securities	Net investment in finance lease	Other financial assets	Debt instruments
<b>At 31 December 2021</b>									
Incl. renegotiated	<b>46,180</b>	-	-	-	-	-	-	-	-
Within 30 days	-	-	-	-	-	-	-	-	-
From 30- 90 days	2,722	-	-	-	-	-	-	-	-
Over 90 days	43,458	-	-	-	-	-	-	-	-
<b>Impaired on a portfolio basis</b>									
- standard – Stage 1	184,559	18,866	73,990	3,949	-	-	53,087	-	-
-watch (Stage 2)	3,436	-	-	6	-	-	4,140	-	-
-non-performing (Stage 3)	51,314	-	-	8	-	-	-	-	-
<b>Gross amount</b>	<b>239,309</b>	<b>18,866</b>	<b>73,990</b>	<b>3,963</b>	-	-	<b>57,227</b>	-	-
Incl. renegotiated	<b>164,540</b>	-	<b>50,271</b>	<b>247</b>	-	-	-	-	-
<b>Not past due and not impaired</b>									
Stage 1	204,612	-	313,447	-	243,625	-	-	-	-
Stage 2	15,483	-	-	-	-	-	-	-	-
Stage 3	4,145	-	-	-	-	-	-	-	-
<b>Gross amount</b>	<b>224,240</b>	-	<b>313,447</b>	-	<b>243,625</b>	-	-	-	-
Incl. renegotiated	220,767	-	-	-	-	-	-	-	-
<b>Gross amount</b>	<b>2,038,208</b>	<b>18,866</b>	<b>387,438</b>	<b>3,963</b>	<b>243,635</b>	<b>12,170</b>	<b>58,424</b>	<b>5,364</b>	<b>657,649</b>
Incl. renegotiated	1,869,590	-	50,271	247	-	-	-	-	-

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.1. Credit risk (continued)**

**Quality of financial assets (continued)**

Financial assets measured at amortized cost								FA measured at fair value through OCI	
Non-financial institutions	State budget	Financial institutions	Individuals	Cash in hand and balances in current account with the Central Bank	Securities	Net investment in finance lease	Other financial assets	Debt instruments	
<b>At 31 December 2020</b>									
<b>Impaired on an individual basis</b>									
-standard (Stage 1)	791,652	-	89,314	2,226	-	12,204	39,697	16,021	649,573
-watch (Stage 2)	484,706	-	-	17	-	-	73	-	-
-non-performing (Stage 3)	199,690	-	-	11	-	-	612	447	-
<b>Gross amount</b>	<b>1,476,048</b>	<b>-</b>	<b>89,314</b>	<b>2,254</b>	<b>-</b>	<b>12,204</b>	<b>40,382</b>	<b>16,468</b>	<b>649,573</b>
Incl. renegotiated	1,110,772	-	61,578	200	-	-	-	-	-
<b>Past due but not impaired</b>									
-standard (Stage 1)	28,716	-	-	-	-	-	-	-	-
-watch (Stage 2)	-	-	-	-	-	-	-	-	-
-non-performing (Stage 3)	15,444	-	-	-	-	-	-	-	-
<b>Gross amount</b>	<b>44,160</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Incl. renegotiated	44,160	-	-	-	-	-	-	-	-
Within 30 days	28,716	-	-	-	-	-	-	-	-
From 30- 90 days	2,642	-	-	-	-	-	-	-	-
Over 90 days	12,802	-	-	-	-	-	-	-	-

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.1. Credit risk (continued)**

**Quality of financial assets (continued)**

Financial assets measured at amortized cost									FA measured at fair value through OCI
Non-financial institutions	State budget	Financial institutions	Individuals	Cash in hand and balances in current account with the Central Bank	Securities	Net investment in finance lease	Other financial assets	Debt instruments	
<b>At 31 December 2020</b>									
<b>Impaired on a portfolio basis</b>									
- standard – Stage 1	206,862	57,975	-	-	-	-	-	-	-
-watch (Stage 2)	55,032	-	-	-	-	-	-	-	-
-non-performing (Stage 3)	42,045	-	-	-	-	-	-	-	-
<b>Gross amount</b>	<b>303,939</b>	<b>57,975</b>	-	-	-	-	-	-	-
Incl. renegotiated	245,270	-	-	-	-	-	-	-	-
<b>Not past due and not impaired</b>									
Stage 1	254,595	-	391,374	-	496,279	-	-	-	-
Stage 2	-	-	-	-	-	-	-	-	-
Stage 3	6,859	-	-	-	-	-	-	-	-
<b>Gross amount</b>	<b>261,454</b>	<b>-</b>	<b>391,374</b>	<b>-</b>	<b>496,279</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Incl. renegotiated	226,764	-	-	-	-	-	-	-	-
<b>Gross amount</b>	<b>2,085,601</b>	<b>57,975</b>	<b>480,688</b>	<b>2,254</b>	<b>496,279</b>	<b>12,204</b>	<b>40,382</b>	<b>16,468</b>	<b>649,573</b>
Incl. renegotiated	1,626,966	-	61,578	200	-	-	-	-	-

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.1. Credit risk (continued)**

**Quality of financial assets (continued)**

The Group classifies not past due and not impaired exposures to the above classes depending on their internal credit rating, as follows:

- high grade – credit rating from 1 to 3 – Stage 1
- standard grade – credit rating from 4 to 5 – Stage 1
- low grade – credit rating from 6 to 7 – Stage 1 (rating 6), not past due or past due up to 30 days, or Stage 2 (rating 7) and past due 30-90 days
- non-performing – Stage 3 (rating 8, 9 and 10) and past due over 90 days

Watch financial assets at amortized cost and finance lease receivables (Stage 2), presented at amortised cost before impairment, are as follows:

	<b>2021</b>	<b>2020</b>
Loans for commercial property and construction	190,902	215,197
Trade loans	457,696	207,013
Consumer loans	6	17
Other loans and receivables	66,920	117,528
	<b>715,524</b>	<b>539,755</b>
Finance lease receivables	4,160	73
	<b>719,684</b>	<b>539,828</b>

When the initial terms of the agreement have been modified by the Parent-company by granting a concession (discounts) to a debtor experiencing difficulties in performing its financial obligations a loan is classified as "restructured" (Stage 2 or 3, in accordance with Policy and rules for determining expected credit losses and impairment of exposure of BDB).

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.1. Credit risk (continued)**

**Quality of financial assets (continued)**

The restructured loans and receivables, presented at amortised cost, are as follows:

	2021	2020
<b>Loans for commercial property and construction</b>	<b>269,061</b>	<b>75,746</b>
<i>incl. Performing – Stage 1</i>	-	615
<i>Watch – Stage 2</i>	169,444	8,659
<i>Non-performing – Stage 3</i>	99,617	66,472
<b>Trade loans</b>	<b>356,076</b>	<b>73,506</b>
<i>incl. Performing – Stage 1</i>	445	-
<i>Watch – Stage 2</i>	268,863	58,865
<i>Non-performing – Stage 3</i>	86,768	14,641
<b>Other loans</b>	<b>79,269</b>	<b>78,934</b>
<i>incl. Performing – Stage 1</i>	-	2,206
<i>Watch – Stage 2</i>	64,307	76,159
<i>Non-performing – Stage 3</i>	14,962	569
	<b>704,406</b>	<b>228,186</b>

**Contingent commitments**

Bank guarantees, letters of credit and unutilized loan commitments

The Bank assesses the credit quality of provided contingent commitments by applying a methodology, which estimates whether events indicating with a high probability that outflow of Bank's resources might take place have occurred. These costs (losses) are determined on the basis of the Policy and Methodology for assessment of expected credit losses, and a Calculation Procedure of BDB based on a Conversion Factor (CCF) that is applied in the case of off-balance sheet exposures that are likely to turn into balance sheet exposures (payments on guarantees, utilisation of part of the allowed amount of the loan, etc.).

As of 31 December 2021, the Group identified commitments amounting to BGN 576,487 thousand (2020: BGN 434,088 thousand), which are impaired at the amount of BGN 5,615 thousand (2020: BGN 7,060 thousand) (Note 32).

**Credit guarantees anti-COVID-19**

In 2020 the Bank, on the basis of decisions of the Council of Ministers of the Republic of Bulgaria, became a guarantor to a group of Bulgarian commercial banks for loans to individuals and legal entities in order to overcome the consequences of the COVID-19 pandemic (see Note 37).

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.1. Credit risk (continued)**

**Contingent commitments (continued)**

Contracts for financial guarantees

These contingent liabilities are carriers of off-balance sheet credit risk, as only fees are recognized in the financial statements until the fulfilment or expiration of the commitments. Many of the contingent liabilities will expire without being partially or fully advanced. The collateral with the partner banks for issuing the usual guarantees is over 100% and represents mainly mortgaged real estate and insurance policies issued in favour of the partner bank.

**Expected credit losses (ECL) reporting**

**For instruments measured at amortised cost**, ECLs reduce the carrying amount in the statement of financial position.

**For debt instruments measured at fair value through other comprehensive income**, ECLs are part of the negative change in the fair value due to an increased credit risk. They continue to be presented at the fair value in the statement of financial position, and the accumulated adjustment for losses is recognized in the statement of comprehensive income. Upon subsequent derecognition of the instrument, the accumulated adjustment is recognized in the profit or loss for the period.

**Contracts for financial guarantees** are contingent liabilities and are bearers of off-balance sheet credit risk, as only fees are recognized in the financial statements until the fulfilment or expiration of the commitments. Many of the contingent liabilities will expire without being partially or fully advanced. The collateral with the partner banks for issuing the usual guarantees is over 100% and represents mainly mortgaged real estate and insurance policies issued in favour of the partner bank. For the guarantees under the anti-COVID programs, the collaterals are in accordance with the program approved by the Council of Ministers. In case of activation of a component of a guarantee issued by a company of the Group, the payment made by it is not assessed as a final loss, as the partner bank has an obligation to take all necessary actions for realization of the received collaterals on the problem loan and repay the respective amount to the company.

**Risk parameters affecting ECL**

*Probability of default (PD)*

PD is the probability of a counterparty not complying with contract clauses related to debt repayment. For each individual exposure or a portfolio of collectively assessed exposures, the Group maintains historical information on the migration of exposures between different stages.

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.1. Credit risk (continued)**

**Risk parameters affecting ECL (continued)**

*Probability of default (PD) (continued)*

The value of 12M PD is determined on the basis of observed deterioration rates and is calculated as a moving average over a period of at least 2 years. For exposures that are individually measured, the value of the 12M PD is determined depending on the assigned credit rating according to an internal model. Data on the changes in the borrowers' rating over a one-year horizon is aggregated into transaction matrices, and a 12M PD is calculated for each rating scale depending on the number of default cases found. The Group adjusts the values of 12M PD to reflect the current or expected economic conditions that may differ from those during the historical periods analysed.

*Exposure at default (EAD)*

EAD is potential exposure at the time of default. The level of exposure at default is determined individually for each loan depending on the type of loan, taking into account both the amount of utilized amounts and the agreed undrawn amounts according to the expectation of future drawdowns.

*Loss Given Default (LGD)*

LGD is the ratio of the exposure loss due to default to the amount of exposure at default. The Group calculates the potential loss that would have arisen if an exposure goes into default and the only source for collecting the receivable is the realization of the collateral. The loss is measured as a percentage of Exposure at Default (EAD).

The Group has determined relative thresholds that are used also for the exposures for which the absolute thresholds are applied and for those, for which no such thresholds have been determined. They are based on matrixes covering the overall credit cycle (through-the-cycle, TTC) and the change in the probability of default on the respective exposures from the external aggregated data of Moody's (the Group has developed preliminary a methodology for equalizing the internal credit ratings to those assigned by the rating agency).

**Expected credit losses on issued credit guarantees anti-COVID**

For these programmes the BDB adopted a special methodology for provisioning in view of the specifics of the programmes, profile of the customers and structure of commitments related to the products for cash inflows and outflows as follows:

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#### **4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **4.1. Credit risk (continued)**

###### **Expected credit losses on issued credit guarantees anti-COVID (continued)**

###### ***Programme for companies***

The main parameters of the programme and the guaranteed loans are:

- The obligation to pay under the guarantees is practically unconditional (for loans admitted in the program).
- The guarantees are 100% of the principal on the loan. A maximum ceiling of payments was established – initially of 30%, and by decision of the Council of Ministers at the end of 2020 the ceiling was raised to 50%.
- The selection of borrowers is based on criteria related to the effects of the pandemic and not to the usual criteria for providing funding to legal entities. SMEs were included and at the end of 2020 intermediate enterprises were also included by the amendments made.
- Banks have the option to include loans without the normally necessary collateral (20% coverage of collateral exposures is required). It is also possible to include a certain percentage of exposures already formed, and the self-participation of banks is set at 20%. The terms prejudge a significantly higher risk than under normal business guarantee programmes.

As of 31 December 2021, the BDB has assumed a commitment to commercial banks for a guarantee of BGN 397.5 million and the commercial banks granted guaranteed loans of BGN 413.6 million<sup>5</sup>. The issuance of the guarantees under the programme is expected to be completed in 2022 (deadline 30.06.2022).

The total amount of the programme of BGN 400 million<sup>6</sup> will be negotiated with commercial banks on additional guarantee lines in 2022.

Under the set parameters, the estimates for the expected developments are:

- Payments by the BDB amount to 30% of the guarantee commitment and the remaining 70% will be paid by the borrowers;
- The realization of the main part of the payments under the programme will continue up to 2 years after the original maturity of the loans (taking into account the time between the beginning of default and payment by the BDB and the extension of the repayment period of persons with partial default);

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<sup>5</sup> The amount of the guarantee is 50% of the total amount of the loan.

<sup>6</sup> By Decision of the Council of Ministers of 05.03.2021 there is an opportunity up to BGN 100 million to be redirected from the programme for companies to the programme for individuals without changing the total amount under the programme or the limit for companies. As of 31.12.2021, the volume of guaranteed loans under the programme for individuals approaches BGN 300 million.

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.1. Credit risk (continued)**

**Expected credit losses on issued credit guarantees anti-COVID (continued)**

***Programme for companies (continued)***

- The reimbursement of the amounts paid under the guarantees shall amount to 35% of the amounts paid. This estimate shall take into account the recovery costs;
- A discount rate of 1% corresponding to the applicable interest rate on the liabilities of the BDB was used.

The impairment model and the resulting expected losses are not significantly affected by the programme utilization period and, accordingly, repayment of liabilities, given the very low interest rates expected in the medium term and, accordingly, very low discount factors for future cash flows.

The sensitivity of the net present value of payments to the effective percentage of payments by the BDB is 3.33% for each 1% change from the base value. Its sensitivity to the recovery rate of amounts already paid is 1.51% for every 1% change.

***Programme for individuals***

The main parameters of the program and the guaranteed loans are:

- Payments under guarantees are virtually unconditional (for loans admitted to the programme);
- The guarantees are for 100% of the principal amount of the loan;
- The selection of borrowers is based on the criterion "affected by the pandemic" and not on the usual criteria for providing funding to individuals. These are persons on unpaid leave or self-employed persons with reduced income. Borrowers' incomes are stressed and significantly lower than usual;
- BDB compensates the participating commercial banks with an annual payment of 1.50% on the amount of the guarantee commitment;
- The loans have a grace period of up to two years and a term of up to 5 years.

By Decision of the Council of Ministers 506/15.07.2021 an extension was approved of the deadline for applying for credit by individuals "until 31.08.2021 or until the guarantee limits for financing under the programme by partner banks are exhausted, whichever occurs earlier");

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Under the set parameters, the estimates for the expected developments are:

- Payments by the BDB will amount to 40% of the guarantee commitment and the remaining 60% will be paid by the borrowers;
- The realization of the main part of the payments under the program will continue up to 2 years after the original maturity of the loans (taking into account the time between the beginning of default and payment by the BDB and the extension of the repayment period of persons with partial default);

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.1. Credit risk (continued)**

**Expected credit losses on issued credit guarantees anti-COVID (continued)**

**Programme for individuals (continued)**

- Refunds on guarantees should amount to 25% of the amounts paid. This estimate shall take into account the recovery costs;
- The payment of 1.5% to commercial banks is an irrevocable commitment of the BDB, which is included in the calculation;
- A discount rate of 1% corresponding to the applicable interest rate on the liabilities of the BDB was used.

As of 31 December 2021, the BDB has assumed a commitment to commercial banks for a guarantee of BGN 283.4 million and the commercial banks granted guaranteed loans of BGN 236.1 million<sup>7</sup>. The issuance of the guarantees under the programme was completed in December 2021.

The impairment model and the resulting expected losses are not significantly affected by the programme utilization period and, accordingly, repayment of liabilities, given the very low interest rates expected in the medium term and, accordingly, very low discount factors for future cash flows.

The sensitivity of the net present value of payments to the effective percentage of payments by the BDB is 1.96% for each 1% change from the base value. Its sensitivity to the recovery rate of amounts already paid is 1.05% for every 1% change.

At the date of these financial statements, the Bank has issued guarantees for BGN 680,938 thousand, has guaranteed exposures under the two programmes totalling BGN 649,663 thousand, recognizing provisions at the amount of BGN 176,370 thousand.

**Expected credit losses on portfolio guarantees issued**

These costs/losses are determined on the basis of the present value of the future net cash flows, representing the difference between the payment obligation and the possible inflows of subsequent recourse to third parties.

In order to properly assess the portfolios under guarantee schemes in terms of own risk, namely "Guarantee scheme 2009-2011", "Guarantee scheme 2015-2017", "Guarantee scheme 2017-2018" and COSME Guarantee scheme, the NGF applies a Policy on the Classification and Evaluation of Instruments covered by IFRS 9, a Credit Portfolios Rating Procedure and the Methodology for determining the expected credit losses, as also a Procedure for their calculation. A calculation of expected losses on financial instruments in the NGF portfolio is carried out by applying a calculation model for expected losses.

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<sup>7</sup> The amount of the guarantee is 100% of the total amount of the loan.

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.1. Credit risk (continued)**

**Movements in the main groups of assets subject to impairment**

The tables below show the movements of the main groups of assets subject to impairment, between the different stages for the period 01.01-31.12.2021 and 01.01-31.12.2020.

All assets measured at amortised cost – non-financial entities, including with state participation, individuals and non-banking financial institutions as well as securities stated at amortized cost are included in the table presented on the next page.

<b>Assets measured at amortised cost</b>  (except for Government and Receivables from Banks)	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Balance as of 01.01.2020</b>	<b>1,307,149</b>	<b>265,637</b>	<b>250,853</b>	<b>1,823,639</b>
Transfers:				
Transfer from Stage 1 to Stage 2	(291,077)	291,077	-	-
Transfer from Stage 1 to Stage 3	(9,967)	-	9,967	-
Transfer from Stage 2 to Stage 3	-	(27,463)	27,463	-
Transfer from Stage 2 to Stage 1	1,362	(1,362)	-	-
Newly occurred and newly acquired exposures	339,191	27,521	12,127	<b>378,839</b>
Paid or transferred	(158,433)	(15,872)	(43,458)	<b>(217,763)</b>
Increased	108,030	217	7,097	<b>115,344</b>
<b>Balance as of 31.12.2020</b>	<b>1,296,255</b>	<b>539,755</b>	<b>264,049</b>	<b>2,100,059</b>
Transfers:				
Transfer from Stage 1 to Stage 2	(231,968)	231,968	-	-
Transfer from Stage 1 to Stage 3	(4,519)	-	4,519	-
Transfer from Stage 2 to Stage 3	-	(51,493)	51,493	-
Transfer from Stage 2 to Stage 1	7,905	(7,905)	-	-
Transfer from Stage 3 to Stage 2	-	2,672	(2,672)	-
Newly occurred and newly acquired exposures	88,947	16,022	38,170	143,139
Paid or transferred	(209,968)	(21,248)	(57,698)	(288,914)
Increased	85,202	5,753	9,102	100,057
<b>Balance as of 31.12.2021</b>	<b>1,031,854</b>	<b>715,524</b>	<b>306,963</b>	<b>2,054,341</b>

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.1. Credit risk (continued)**

**Movements in the main groups of assets subject to impairment (continued)**

Assets measured at amortised cost - Government	Stage 1	Stage 2	Stage 3	Total
<b>Balance as of 01.01.2020</b>	<b>167,258</b>	-	-	<b>167,258</b>
Newly occurred and newly acquired exposures	3	-	-	3
Paid or transferred	(139,135)	-	-	(139,135)
Increased	29,849	-	-	<b>29,849</b>
<b>Balance as of 31.12.2020</b>	<b>57,975</b>	-	-	<b>57,975</b>
Newly occurred and newly acquired exposures	291	-	-	<b>291</b>
Paid or transferred	(47,328)	-	-	(47,328)
Increased	7,928	-	-	<b>7,928</b>
<b>Balance as of 31.12.2021</b>	<b>18,866</b>	-	-	<b>18,866</b>

The Group presents under the heading Government assets measured at amortised cost relating mainly to the National Programme for Energy Efficiency of Multi-Family Residential Buildings (NPEEMFRB).

Assets measured at amortised cost – Net investment in finance lease	Stage 1	Stage 2	Stage 3	Total
<b>Balance as of 01.01.2020</b>	<b>9,519</b>	<b>146</b>	<b>583</b>	<b>10,248</b>
Transfers:				-
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 3	-	(10)	10	-
Transfer from Stage 2 to Stage 1	68	(68)	-	-
Newly occurred and newly acquired exposures	124,508	-	-	<b>124,508</b>
Paid or transferred	(94,398)	5	(5)	(94,398)
Increased	-	-	24	<b>24</b>
<b>Balance as of 31.12.2020</b>	<b>39,697</b>	<b>73</b>	<b>612</b>	<b>40,382</b>
Transfers:				-
Transfer from Stage 1 to Stage 2	(4,369)	4,369	-	-
Transfer from Stage 1 to Stage 3	(160)	-	160	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	18	(18)	-	-
Newly occurred and newly acquired exposures	124,943	-	-	<b>124,943</b>
Paid or transferred	(106,775)	(264)	138	(106,901)
Increased	-	-	-	-
<b>Balance as of 31.12.2021</b>	<b>53,354</b>	<b>4,160</b>	<b>910</b>	<b>58,424</b>

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.1. Credit risk (continued)**

**Movements in the main groups of assets subject to impairment (continued)**

<b>Assets measured at amortised cost - Banks and financial institutions</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Balance as of 01.01.2020</b>	<b>341,522</b>	-	-	<b>341,522</b>
Newly occurred and newly acquired exposures	355,801	-	-	<b>355,801</b>
Paid or transferred	(224,035)	-	-	<b>(224,035)</b>
Increased	7,400	-	-	<b>7,400</b>
<b>Balance as of 31.12.2020</b>	<b>480,688</b>	-	-	<b>480,688</b>
Newly occurred and newly acquired exposures	230,931	-	-	<b>230,931</b>
Paid or transferred	(341,246)	-	-	<b>(341,246)</b>
Increased	17,065	-	-	<b>17,065</b>
<b>Balance as of 31.12.2021</b>	<b>387,438</b>	-	-	<b>387,438</b>

Loans to banks and financial institutions include both transactions on an interbank market and deposits of different maturity.

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.1. Credit risk (continued)**

**Movements in the main groups of assets subject to impairment (continued)**

<b>Assets measured at fair value through other comprehensive income – debt instruments</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Balance as of 01.01.2020</b>	<b>596,967</b>	-	-	<b>596,967</b>
Newly occurred and newly acquired exposures	156,753	-	-	<b>156,753</b>
Paid or transferred	(231,034)	-	-	<b>(231,034)</b>
Increased	126,887	-	-	<b>126,887</b>
<b>Balance as of 31.12.2020</b>	<b>649,573</b>	-	-	<b>649,573</b>
Newly occurred and newly acquired exposures	138,749	-	-	<b>138,749</b>
Paid or transferred	(167,961)	-	-	<b>(167,961)</b>
Increased	37,288	-	-	<b>37,288</b>
<b>Balance as of 31.12.2021</b>	<b>657,649</b>	-	-	<b>657,649</b>

Portfolio of securities consists mainly of bonds of the Republic of Bulgaria, other European sovereign issuers and bonds of large corporate clients.

The amount of the expected credit loss is a function of the probability of default of the instrument, the realized loss and the amount of balance sheet and off-balance sheet exposure. The probability of default (PD) and the realized LGD are the parameters employed in determining the provisioning rate and those parameters are determined on the basis of an individual review of the early warning signs that are homogeneous in terms of their credit characteristics and their relation to international and domestic macroeconomic variables that could affect them.

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.1. Credit risk (continued)**

**Movement in the impairment of main groups of assets subject to impairment in 2021 and 2020**

Movement in the impairment in 2021 and 2020 is presented in the following tables.

<b>Assets measured at amortised cost</b> <b>(except for Receivables from the State Budget)</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Balance as of 01.01.2020</b>	<b>26,606</b>	<b>4,759</b>	<b>130,092</b>	<b>161,457</b>
Transfers:				
Transfer from Stage 1 to Stage 2	(58,109)	58,109	-	-
Transfer from Stage 1 to Stage 3	(4,116)	-	4,116	-
Transfer from Stage 2 to Stage 3	47	(829)	782	-
Transfer from Stage 2 to Stage 1	2	(2)	-	-
Newly occurred and newly acquired exposures	18,851	3,290	1,043	<b>23,184</b>
Paid or transferred	(3,523)	(454)	(37,185)	<b>(41,162)</b>
Increased	92,515	7,910	14,849	<b>115,274</b>
<b>Balance as of 31.12.2020</b>	<b>72,273</b>	<b>72,783</b>	<b>113,697</b>	<b>258,753</b>
Transfers:				
Transfer from Stage 1 to Stage 2	(51,987)	51,987	-	-
Transfer from Stage 1 to Stage 3	66	-	(66)	-
Transfer from Stage 2 to Stage 3	-	(1,073)	1,073	-
Transfer from Stage 2 to Stage 1	25	(243)	218	-
Newly occurred and newly acquired exposures	1,582	225	5,270	<b>7,077</b>
Paid or transferred	(2,923)	(252)	(55,713)	<b>(58,888)</b>
Increased	1,366	97,203	41,048	<b>139,617</b>
<b>Balance as of 31.12.2021</b>	<b>20,402</b>	<b>220,630</b>	<b>105,527</b>	<b>346,559</b>

Impairment of financial assets at amortized cost – Securities is included in the movement in the impairment above.

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.1. Credit risk (continued)**

**Movement in the impairment of main groups of assets subject to impairment in 2021 and 2020 (continued)**

**Assets measured at amortised cost – Receivables from the State Budget**

	Stage 1	Stage 2	Stage 3	Total
<b>Balance of impairment as of 01.01.2020</b>	<b>436</b>	-	-	<b>436</b>
Net movement of impairment on Energy Efficiency of Multi-Family Buildings National Programme	(285)	-	-	<b>(285)</b>
<b>Balance of impairment as of 31.12.2020</b>	<b>151</b>	-	-	<b>151</b>
Net movement of impairment on Energy Efficiency of Multi-Family Buildings National Programme	(102)	-	-	<b>(102)</b>
<b>Balance of impairment as of 31.12.2021</b>	<b>49</b>	-	-	<b>49</b>

**Assets measured at amortised cost - Finance lease**

	Stage 1	Stage 2	Stage 3	Total
<b>Balance as of 01.01.2020</b>	<b>16</b>	<b>2</b>	<b>501</b>	<b>519</b>
Transfer from Stage 2 to Stage 1	2	(2)	-	-
Newly occurred and newly acquired exposures	253	-	(4)	<b>249</b>
Paid or transferred	(6)	-	9	<b>3</b>
<b>Balance as of 31.12.2020</b>	<b>265</b>	-	<b>506</b>	<b>771</b>
Transfer from Stage 1 to Stage 2	(191)	191	-	-
Transfer from Stage 2 to Stage 1	(2)	2	-	-
Newly occurred and newly acquired exposures	737	-	-	<b>737</b>
Paid or transferred	(114)	-	-	<b>(114)</b>
Increased	-	-	53	<b>53</b>
<b>Balance as of 31.12.2021</b>	<b>695</b>	<b>193</b>	<b>559</b>	<b>1,447</b>

**Assets measured at amortised cost - Banks and financial institutions**

	Stage 1	Stage 2	Stage 3	Total
<b>Balance of impairment as of 01.01.2020</b>	<b>2,274</b>	-	-	<b>2,274</b>
Increased	(286)	-	-	<b>(286)</b>
<b>Balance of impairment as of 31.12.2020</b>	<b>1,988</b>	-	-	<b>1,988</b>
Increased	102	-	-	<b>102</b>
<b>Balance of impairment as of 31.12.2021</b>	<b>2,090</b>	-	-	<b>2,090</b>

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.1. Credit risk (continued)**

**Movement in the impairment of main groups of assets subject to impairment in 2021 and 2020 (continued)**

<b>Assets measured at fair value through other comprehensive income</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Balance of impairment as of 01.01.2020</b>	<b>1,680</b>	-	-	<b>1,680</b>
Newly occurred and newly acquired exposures	386	-	-	<b>386</b>
Paid or transferred	(310)	-	-	<b>(310)</b>
Increased	862	-	-	<b>862</b>
<b>Balance of impairment as of 31.12.2020</b>	<b>2,618</b>	-	-	<b>2,618</b>
Newly occurred and newly acquired exposures	1,544	-	-	1,544
Paid or transferred	(322)	-	-	<b>(322)</b>
Increased	591	-	-	<b>591</b>
<b>Balance of impairment as of 31.12.2021</b>	<b>4,431</b>	-	-	<b>4,431</b>

**Amount of the collateral as of 31.12.2021 and 31.12.2020**

The amount of the collateral on secured assets is presented in the following table:

<b>Loans by type of collateral</b>	<b>Carrying amount of the loan</b>	<b>Amount of the collateral</b>
Mortgages	401,448	543,788
Pledge of machinery, plant, equipment and inventories	182,525	288,241
Restricted deposits	613,548	36,653
Mortgage on a ship	32,951	46,432
Credit risk insurance	37,820	23,612
Bank guarantees	514	635
Other collateral	408,696	3,030,395
Unsecured	18,300	-
<b>Total as of 31.12.2021</b>	<b>1,695,802</b>	<b>3,969,756</b>

**Leases by type of collateral**

	<b>Carrying amount of the lease</b>	<b>Amount of the collateral</b>
Other collaterals	56,977	-
	<b>56,977</b>	<b>-</b>

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.1. Credit risk (continued)**

**Amount of the collateral as of 31.12.2021 and 31.12.2020 (continued)**

Type of collateral	Carrying amount of the loan	Amount of the collateral
Mortgages	659,505	841,503
Pledge of machinery, plant, equipment and inventories	228,232	316,974
Restricted deposits	531,076	57,968
Mortgage on a ship	72,494	97,276
Credit risk insurance	63,912	64,280
Securities quoted on an organized market	14,279	20,536
Bank guarantees	6,096	804
Other collateral	226,879	3,102,524
Unsecured	26,777	-
<b>Total as of 31.12.2020</b>	<b>1,829,250</b>	<b>4,501,865</b>

Leases by type of collateral	Carrying amount of the lease	Amount of the collateral
Other collaterals	39,611	-
	<b>39,611</b>	<b>-</b>

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.1. Credit risk (continued)**

**Country (sovereign) risk**

The Group has formed a portfolio of securities classified as financial assets at fair value through other comprehensive income, comprising mainly government securities issued by the Republic of Bulgaria and other EU countries and the USA. The Group's exposure to sovereign is BGN 610,011 thousand as of 31.12.2021 and BGN 626,924 thousand as of 31.12.2020.

Standard & Poor's credit rating for the Republic of Bulgaria stands at BBB with stable outlook (30.11.2021), BBB with positive from Fitch Ratings (23.07.2021, 22.01.2022) and Baa1 with stable outlook from Moody's (10.10.2020). The securities held issued by governments of other countries have a rating which is not lower than BBB- according to Fitch Ratings/Standard&Poor's, or equivalent Baa3 according to Moody's.

According to Fitch Ratings, BBB credit rating means that insolvency expectations are low, and the capacity to service financial liabilities is adequate, but a deterioration in economic conditions or business environment is likely to lessen this capacity. The definitions of Moody's and Standard&Poor's of the rating assigned to the sovereign are similar.

**4.2. Market risk**

Market risk is the risk of adverse movements in interest rates, exchange rates, liquidity position, and other factors affecting the price of securities and other financial assets. These movements affect the Group's profitability and financial position.

**Interest rate risk**

Interest rate risk is the probability for potential change of the net interest income or the net interest margin and the market value of the equity due to changes in market interest rates.

Interest rate risk is considered in view of the overall activity of the Group. Analyses of financial assets and liabilities grouped in time intervals depending on their sensitivity to changes in the interest rates are conducted on regular basis

The approach for measuring interest rate risk with respect to the overall activity comprises primarily:

- Analysis of the interest rate sensitivity of income – measuring the interest rate sensitivity of the Group's net income;
- Analysis of the interest rate sensitivity of economic capital (Duration GAP Analysis) – measuring the interest rate sensitivity of the Group's economic value;
- Determination, application and reporting of limits for interest rate risk reflecting the volatility of the respective interest rate curve and the Group's risk appetite;
- Stress tests for interest rate risk – presenting the potential movements in the annual interest income after applying a stress scenario involving changes in the interest rate curves by types of currencies.

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.2. Market risk (continued)**

**Interest rate risk (continued)**

Cash flow interest rate analysis is conducted by allocating the cash flows from assets and liabilities included in the interest rate imbalance analysis and forming the respective maturity gaps. In case of Group's statement of financial position items classified as such and measured at fair value, the fair value risk analysis is limited to placing the relevant item with the applicable maturity structure within the interest rate imbalance analysis.

The Group maintains designated interest-free assets and liabilities in relation to the execution of payment operations.

In addition to interest rate sensitivity analyses, the main drivers of the movement in the net interest spread of the Group are identified for the purposes of interest rate risk management. This assists decision making on the interest rate policies of the Group, in particular, for the development of specific products and providing sources of financing having matching characteristics.

The Assets and Liabilities Committee (ALCO) currently monitors interest rate risk to which the Group is exposed and develops measures for its management and maintenance within the Group's permitted levels and limits.

The table below summarises the interest exposure and interest risk of the Group. It includes information on the Group's assets and liabilities at their carrying amount in accordance with interest-related clauses, set in the contracts, their maturity structure and sensitivity to movements in interest rates.

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.2. Market risk (continued)**

**Interest rate risk (continued)**

<i>31 December 2021</i>	<i>With floating interest rate</i>	<i>With fixed interest rate</i>	<i>Interest-free</i>	<i>Total</i>
<b>Financial assets</b>				
Cash in hand and balances in current account with the Central Bank	243,635	-	-	<b>243,635</b>
Receivables from banks	21,747	351,327	12,274	<b>385,348</b>
Financial assets at amortised cost -				
Loans and advances to customers	1,679,547	12,380	3,875	<b>1,695,802</b>
Financial assets at amortised cost -				
Receivables from the State budget	18,817	-	-	<b>18,817</b>
Financial assets at amortised cost -				
Securities	-	11,980	-	<b>11,980</b>
Financial assets at amortised cost -				
Net investment in finance leases	56,501	-	476	<b>56,977</b>
Financial assets at fair value through other comprehensive income - Debt instruments	-	657,649	-	<b>657,649</b>
Other financial assets	-	5	4,883	<b>4,888</b>
	<b>2,020,247</b>	<b>1,033,341</b>	<b>21,508</b>	<b>3,075,096</b>
<b>Financial liabilities</b>				
Deposits from credit institutions	1,731	11	-	<b>1,742</b>
Deposits from customers other than credit institutions	670,912	60,732	6,386	<b>738,030</b>
Borrowings from international institutions	1,063,786	46,954	-	<b>1,110,740</b>
Lease liabilities	168	-	177	<b>345</b>
Other borrowings and liabilities	11,314	5,510	70,549	<b>87,373</b>
	<b>1,747,911</b>	<b>113,207</b>	<b>77,112</b>	<b>1,938,230</b>
<b>Total interest rate exposure</b>	<b>272,336</b>	<b>920,134</b>	<b>(55,604)</b>	<b>1,136,866</b>
Contingencies and commitments	182,247	27,562	891,503	1,101,312

The Group's assets and liabilities with floating interest rate are based mainly on 3-month and 6-month EURIBOR.

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.2. Market risk (continued)**

**Interest rate risk (continued)**

<i>31 December 2020</i>	<i>With floating interest rate</i>	<i>With fixed interest rate</i>	<i>Interest- free</i>	<i>Total</i>
<b>Financial assets</b>				
Cash in hand and balances in current account with the Central Bank	495,678	-	601	<b>496,279</b>
Receivables from banks	23,156	442,993	12,551	<b>478,700</b>
Financial assets at amortised cost -				
Loans and advances to customers	1,781,619	46,128	1,503	<b>1,829,250</b>
Financial assets at amortised cost -				
Receivables from the State budget	57,824	-	-	<b>57,824</b>
Financial assets at amortised cost -				
Securities	-	12,056	-	<b>12,056</b>
Financial assets at amortised cost -				
Net investment in finance leases	39,412	-	199	<b>39,611</b>
Financial assets at fair value through other comprehensive income - Debt instruments	-	649,573	-	<b>649,573</b>
Other financial assets	-	-	16,021	<b>16,021</b>
	<b>2,397,689</b>	<b>1,150,750</b>	<b>30,875</b>	<b>3,579,314</b>
<b>Financial liabilities</b>				
Deposits from credit institutions	8,162	14	-	<b>8,176</b>
Deposits from customers other than credit institutions	658,563	310,276	11,652	<b>980,491</b>
Borrowings from international institutions	1,148,917	89,987	-	<b>1,238,904</b>
Lease liabilities	169	-	110	<b>279</b>
Other borrowings and liabilities	11,237	5,695	70,373	<b>87,305</b>
	<b>1,827,048</b>	<b>405,972</b>	<b>82,135</b>	<b>2,315,155</b>
<b>Total interest rate exposure</b>	<b>570,641</b>	<b>744,778</b>	<b>(51,260)</b>	<b>1,264,159</b>
Contingencies and commitments	256,201	7,447	798,128	<b>1,061,776</b>

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#### 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### 4.2. Market risk (continued)

###### Interest rate risk (continued)

*Analysis of interest rate sensitivity and risk*

The table below includes the financial instruments of the Group, presented at carrying value, classified by the earlier of the date of interest rate change under the contract and the maturity date.

	<b>Within 1 month</b>	<b>1-3 months</b>	<b>3-6 months</b>	<b>6-12 months</b>	<b>1-5 years</b>	<b>over 5 years</b>	<b>With fixed interest rate</b>	<b>Interest-free</b>	<b>Total</b>
<b>As of 31.12.2021</b>									
<b>Financial assets</b>									
Receivables from banks	21,667	80	-	-	-	-	351,327	12,274	<b>385,348</b>
Financial assets at amortised cost – Loans and advances to customers	134,516	1,541,913	1,200	513	1,405	(20,755)	33,135	3,875	<b>1,695,802</b>
Financial assets at amortised cost – Net investment in finance lease	374	55,884	24	45	174	-	-	476	<b>56,977</b>
Financial assets at amortised cost – Receivables from the State budget	18,817	-	-	-	-	-	-	-	<b>18,817</b>
Financial assets at amortised cost – Securities	-	-	-	-	-	10,060	1,920	-	<b>11,980</b>
Financial assets at fair value through other comprehensive income – Debt instruments	-	57,212	439,645	18,097	73,839	68,856	-	-	<b>657,649</b>
Other financial assets	-	473	3	-	-	-	-	4,412	<b>4,888</b>
<b>Total financial assets</b>	<b>175,374</b>	<b>1,655,562</b>	<b>440,872</b>	<b>18,655</b>	<b>75,418</b>	<b>58,161</b>	<b>386,382</b>	<b>21,037</b>	<b>2,831,461</b>
<b>Financial liabilities</b>									
Borrowings from international institutions	-	57,640	21,474	61,875	656,306	266,491	46,954	-	<b>1,110,740</b>
Deposits from customers other than credit institutions	712,967	(39,454)	25,118	678	20,014	-	-	18,707	<b>738,030</b>
Deposits from credit institutions	1,719	12	-	-	-	11	-	-	<b>1,742</b>
Other borrowings and liabilities	3,256	11,236	168	-	60	71,006	-	1,647	<b>87,373</b>
Lease liabilities	-	277	-	-	-	-	-	68	<b>345</b>
<b>Total financial liabilities</b>	<b>717,942</b>	<b>29,711</b>	<b>46,760</b>	<b>62,553</b>	<b>676,380</b>	<b>337,508</b>	<b>46,954</b>	<b>20,422</b>	<b>1,938,230</b>
<b>Total interest rate sensitivity exposure</b>	<b>(542,568)</b>	<b>1,625,851</b>	<b>394,112</b>	<b>(43,898)</b>	<b>(600,962)</b>	<b>(279,347)</b>	<b>339,428</b>	<b>615</b>	<b>893,231</b>
Contingencies and commitments	400,054	30,173	-	-	-	-	27,562	643,523	<b>1,101,312</b>

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.2. Market risk (continued)**

**Interest rate risk (continued)**

	<i>Within 1 month</i>	<i>1-3 months</i>	<i>3-6 months</i>	<i>6-12 months</i>	<i>1-5 years</i>	<i>over 5 years</i>	<i>With fixed interest rate</i>	<i>Interest-free</i>	<i>Total</i>
<b>As of 31.12.2020</b>									
<b>Financial assets</b>									
Receivables from banks	23,081	75	-	-	-	-	442,993	12,551	<b>478,700</b>
Financial assets at amortised cost - Loans and advances to customers	87,979	1,691,361	807	513	1,405	-	45,682	1,503	<b>1,829,250</b>
Financial assets at amortised cost - Net investment in finance lease	531	38,638	24	45	174	-	-	199	<b>39,611</b>
Financial assets at amortised cost - Receivables from the State budget	57,824	-	-	-	-	-	-	-	<b>57,824</b>
Financial assets at amortised cost - Securities	-	-	-	-	-	10,126	1,930	-	<b>12,056</b>
Financial assets at fair value through other comprehensive income - Debt instruments	15,995	60,478	-	4,739	446,095	122,266	-	-	<b>649,573</b>
Other financial assets	-	-	-	-	-	-	-	16,021	<b>16,021</b>
<b>Total financial assets</b>	<b>185,410</b>	<b>1,790,552</b>	<b>831</b>	<b>5,297</b>	<b>447,674</b>	<b>132,392</b>	<b>490,605</b>	<b>30,274</b>	<b>3,083,035</b>
<b>Financial liabilities</b>									
Borrowings from international institutions	668	33,032	5,303	47,470	654,368	408,076	89,987	-	<b>1,238,904</b>
Deposits from customers other than credit institutions	942,812	928	4,532	4,678	-	-	-	27,541	<b>980,491</b>
Deposits from credit institutions	8,176	-	-	-	-	-	-	-	<b>8,176</b>
Other borrowings and liabilities	-	11,237	-	-	-	73,772	-	2,296	<b>87,305</b>
Lease liabilities	-	169	-	-	-	-	-	110	<b>279</b>
<b>Total financial liabilities</b>	<b>951,656</b>	<b>45,366</b>	<b>9,835</b>	<b>52,148</b>	<b>654,368</b>	<b>481,848</b>	<b>89,987</b>	<b>29,947</b>	<b>2,315,155</b>
<b>Total interest rate sensitivity exposure</b>	<b>(766,246)</b>	<b>1,745,186</b>	<b>(9,004)</b>	<b>(46,851)</b>	<b>(206,694)</b>	<b>(349,456)</b>	<b>400,618</b>	<b>327</b>	<b>767,880</b>
Contingencies and commitments	277,845	232,518	5,061	20,000	1,594	-	7,447	517,311	<b>1,061,776</b>

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.2. Market risk (continued)**

**Interest rate risk (continued)**

***Sensitivity of the floating interest rate assets and liabilities***

The table below represents the sensitivity of the Group to possible changes in interest rates based on the structure of floating rate assets and liabilities as of 31 December, under the assumption that the influence of the other variables is ignored. The actual effect of changes in market interest rates could be different as a significant portion of the loans and receivables from customers bear floating interest rates limited downwards by interest rate "floor" based on a variable portion determined by the Group, which in turn is influenced by numerous factors.

Currency	2021			2020		
	Increase/ Decrease %	Sensitivity of the financial result	Sensitivity of equity	Increase/ Decrease %	Sensitivity of the financial result	Sensitivity of equity
BGN	0.50%	1,799	(4,074)	0.50%	2,236	(6,235)
EUR	0.50%	(1,538)	(4,362)	0.50%	(1,247)	(7,261)
USD	0.50%	(386)	(213)	0.50%	(474)	(2)
BGN	-0.50%	(1,799)	4,074	-0.50%	(2,236)	6,235
EUR	-0.50%	1,538	4,362	-0.50%	1,247	7,261
USD	-0.50%	386	213	-0.50%	474	2

The average interest rates by interest-bearing financial assets and financial liabilities are presented in the following table:

	31.12.2021	31.12.2020
Financial assets	2.31%	2.06%
Financial liabilities	0.92%	0.63%

**Currency risk**

The currency risk is the risk that the financial position and cash flows of the Group might be affected adversely by changes in exchange rates due to open currency positions. In managing the foreign currency risk, the Group follows the principle of maintaining minimum open currency positions within the specified limits. Foreign currency positions are not formed with speculative purposes, but arise out of foreign currency transactions in the ordinary course of business of the Group.

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.2. Market risk (continued)**

**Currency risk (continued)**

The policy of the Group is that the main portion of the assets and liabilities, and respectively the bank transactions, shall be denominated in EUR or BGN. The Group does not carry out significant transactions and does not hold significant open positions in currencies other than EUR and BGN. As the exchange rate of the Bulgarian lev is pegged to that of the Euro, there is no significant open currency risk for the Banks's cash flows and financial performance.

The currency risk is regarded with respect to the overall activity of the Group. Analyses of the financial assets and liabilities by types of currency of denomination are conducted on a regular basis.

The approach of measuring the overall activity currency risk includes mainly:

- Foreign currency sensitivity analysis – measuring the Group's income from foreign currency transactions;
- Determination, implementation and reporting of currency risk limits, reflecting the Group's risk appetite;
- Stress tests for currency risk, which present the potential change of annual income after the implementation of stress scenarios for exchange rate changes.

The currency risk analysis is performed by allocating the Group's assets and liabilities by types of currency of denomination, which facilitates the timely decision making regarding the Group's foreign currency policy, and in particular, the formation of specific products and ensuring sources of financing with relevant characteristics.

The Asset and Liability Management Committee (ALCO) monitors currently the currency risk to which the Group is exposed and develops measures for its management and maintenance within the limits acceptable to the Group.

The following table summarises the Group's exposure to currency risk. The table includes the Group's financial instruments and the contingent liabilities and commitments, presented at carrying amount, classified by type of currency.

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.2. Market risk (continued)**

**Currency risk (continued)**

<b>As of 31 December 2021</b>	<b>In USD</b>	<b>In EUR</b>	<b>In other foreign currency</b>	<b>In BGN</b>	<b>Total</b>
<b>Financial assets</b>					
Cash in hand and balances in current account with the Central Bank	28	21,026	-	222,581	<b>243,635</b>
Receivables from banks	40,588	304,058	121	40,581	<b>385,348</b>
Financial assets at amortised cost					
– Loans and advances to customers	-	1,076,156	-	619,646	<b>1,695,802</b>
Financial assets at amortised cost					
– Receivables from the State budget	-	-	-	18,817	<b>18,817</b>
Net investment in finance leases	-	55,978	-	999	<b>56,977</b>
Financial assets at amortised cost					
– Securities	-	-	-	11,980	<b>11,980</b>
Financial assets at fair value through other comprehensive income – Debt Instruments	66,476	377,108	-	214,065	<b>657,649</b>
Financial assets at fair value through other comprehensive income – Equity Instruments	-	20,719	-	50,062	<b>70,781</b>
Other financial assets	-	-	-	4,888	<b>4,888</b>
<b>Total financial assets</b>	<b>107,092</b>	<b>1,855,045</b>	<b>121</b>	<b>1,183,619</b>	<b>3,145,877</b>
<b>Financial liabilities</b>					
Borrowings from international institutions	-	1,110,740	-	-	<b>1,110,740</b>
Deposits from customers other than credit institutions	114,166	330,185	-	293,679	<b>738,030</b>
Deposits from credit institutions	-	696	-	1,046	<b>1,742</b>
Guarantee provisions	-	785	-	181,200	<b>181,985</b>
Lease liabilities	-	168	-	177	<b>345</b>
Other borrowings	1	17,483	-	69,889	<b>87,373</b>
<b>Total financial liabilities</b>	<b>114,167</b>	<b>1,460,057</b>	<b>-</b>	<b>545,991</b>	<b>2,120,215</b>
<b>Net balance sheet currency position</b>	<b>(7,075)</b>	<b>394,988</b>	<b>121</b>	<b>637,628</b>	<b>1,025,662</b>
Contingencies and commitments	6,291	159,193	-	1,128,521	<b>1,294,005</b>

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.2. Market risk (continued)**

**Currency risk (continued)**

<b>As of 31 December 2020</b>	<b>In USD</b>	<b>In EUR</b>	<b>In other foreign currency</b>	<b>In BGN</b>	<b>Total</b>
<b>Financial assets</b>					
Cash in hand and balances in current account with the Central Bank	32	85,839	-	410,408	<b>496,279</b>
Receivables from banks	110,469	315,433	63	52,735	<b>478,700</b>
Financial assets at amortised cost					
– Loans and advances to customers	-	1,161,371	-	667,879	<b>1,829,250</b>
Financial assets at amortised cost					
– Receivables from the State budget	-	-	-	57,824	<b>57,824</b>
Net investment in finance leases	-	38,700	-	911	<b>39,611</b>
Financial assets at amortised cost					
– Securities	-	10,126	-	1,930	<b>12,056</b>
Financial assets at fair value through other comprehensive income – Debt Instruments	7,969	415,616	-	225,988	<b>649,573</b>
Financial assets at fair value through other comprehensive income – Equity Instruments	-	3,544	-	54,165	<b>57,709</b>
Other financial assets	-	14,082	-	1,939	<b>16,021</b>
<b>Total financial assets</b>	<b>118,470</b>	<b>2,044,711</b>	<b>63</b>	<b>1,473,779</b>	<b>3,637,023</b>
<b>Financial liabilities</b>					
Borrowings from international institutions	-	1,238,904	-	-	<b>1,238,904</b>
Deposits from customers other than credit institutions	118,393	456,507	-	405,591	<b>980,491</b>
Deposits from credit institutions	-	679	-	7,497	<b>8,176</b>
Guarantee provisions	-	-	-	127,448	<b>127,448</b>
Lease liabilities	-	169	-	110	<b>279</b>
Other borrowings	-	16,931	-	70,374	<b>87,305</b>
<b>Total financial liabilities</b>	<b>118,393</b>	<b>1,713,190</b>	<b>-</b>	<b>611,020</b>	<b>2,442,603</b>
<b>Net balance sheet currency position</b>					
Contingencies and commitments	<b>77</b>	<b>331,521</b>	<b>63</b>	<b>862,759</b>	<b>1,194,420</b>
	<b>4,955</b>	<b>167,439</b>	<b>-</b>	<b>889,382</b>	<b>1,061,776</b>

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.2. Market risk (continued)**

**Currency risk (continued)**

The following table presents the Group's sensitivity to possible changes in exchange rates based on the structure of the assets and liabilities as of 31 December.

Currency	2021					Effect on the pre-tax profit in case of change in exchange rates *	Effect on equity	on
	Change in exchange rates*	Decrease (BPS)	Increase (BPS)	Decrease	Increase			
EUR	1.95583	-	-	-	-	-	-	-
USD	1.72685	+810	-1,444	-154	274	-	-	-
JPY	0.01500	+7	-11	-	-	-	-	-
GBP	2.32759	-1,698	+1,550	-9	8	-	-	-
<b>Total effect</b>				<b>-163</b>	<b>+283</b>			-
2020								
Currency	2020					Effect on the pre-tax profit in case of change in exchange rates *	Effect on equity	on
	Change in exchange rates*	Decrease (BPS)	Increase (BPS)	Decrease	Increase			
EUR	1.95583	-	-	-	-	-	-	-
USD	1.59386	+991	-1,278	-196	278	-	-	-
JPY	0.01546	+8	-16	-	-	-	-	-
GBP	2.17549	-1,545	+1,480	-5	4	-	-	-
<b>Total effect</b>				<b>-201</b>	<b>+282</b>			-

\*Calculated on the basis of 3-month change in fluctuation of exchange rate (historical period of 3 years) with degree of confidence 99%.

As of 31 December 2021, the open positions on currency and market volatility for the respective currencies would have an immaterial effect on the financial result of the Group, measured at an amount minus BGN 163 thousand in a hypothesis of adverse change in the exchange rates against the open positions by separate currencies of the Group by reported basis points (BPS: 1 b.p. = 0.0001 in decimal form).

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.2. Market risk (continued)**

Price risk of shares quoted on a securities exchange

The Group is exposed to price risk with respect to the shares it holds, classified as investments at fair value through other comprehensive income. Management of the parent company monitors and analyses all changes in the security market and engages the advisory services of renowned local investment intermediaries. In addition, at this stage management of the parent company has decided to greatly reduce the operations on the stock markets and the trade in the acquired shares, and currently monitors the financial and business indicators, reported by the respective issuer, as well as the development of its activities.

**4.3. Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its current and potential payment obligations as they fall due without suffering losses.

The Group's business requires a stable cash flow both to replace existing deposits and loans received prior to their maturity, and to satisfy demands of customers for additional loans. Undrawn borrowing facility commitments and the level of all outstanding contingent obligations are taken into consideration in managing the parent company's liquidity risk.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, as well as the impact of the changes in interest rates and exchange rates on the pre-tax profit and equity, are important factors in assessing the Group's liquidity. In order to manage this risk, the Group maintains at all times highly liquid assets depending on the currency of its liabilities.

The overall liquidity control and monitoring are performed by ALCO and are based on maturity tables with scenarios for measuring the net cash flows by periods, including nominal, realistic and pessimistic scenario, reflecting to a different degree the negative assumptions relating to loss of confidence by the customers, deterioration of the credit portfolio quality, negative assumptions about the banking market and other assumptions having an impact on the Group's liquid position and certain ratios enacted by Bulgarian National Bank. Additionally, a number of correlations are monitored to indicate the liquid position by periods. Liquidity risk is also measured through application of three additional scenarios for the cash flows from operating activities and monitoring the liquidity buffers of the parent company and the additional sources of financing in case of market and idiosyncratic shocks, representing loss of confidence by the market in a particular bank or banking group, which is tantamount to downgrading of the institution with two degrees at least and combined shocks in compliance with the Guidelines on liquidity buffers and survival periods of Bulgarian National Bank.

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.3. Liquidity risk (continued)**

The table below presents the amounts in percentage of the liquidity coverage ratio (LCR) of the Group:

	<b>2021</b>	<b>2020</b>
As of 31 December	473.88%	551.91%
Average for the period	559.37%	682.21%
Highest for the period	704.33%	966.08%
Lowest for the period	462.40%	437.22%
	<b>2021</b>	<b>2020</b>
Cash and cash balances with BNB	243,635	496,279
Balances in current accounts with other banks and international deposits of up to 90 days	242,257	283,078
Government debt securities	610,011	626,924
<b>Liquid assets</b>	<b>1,095,903</b>	<b>1,406,281</b>
Financial liabilities measured at amortised cost	1,938,147	2,315,155
Provisions	181,985	127,448
<b>Liabilities</b>	<b>2,120,132</b>	<b>2,442,603</b>
Liquid assets ratio (LAR)	51.69%	57.57%

The table on the next page provides an analysis of the financial assets and liabilities of the Group grouped by remaining maturity (assets with indefinite maturity have a period of realisation of up to 1 month).

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.3. Liquidity risk (continued)**

<b>As of 31 December 2021</b>	<b>Within 1 month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Financial assets</b>						
Cash in hand and balances in current account with the Central Bank	243,635	-	-	-	-	<b>243,635</b>
Receivables from banks	216,939	39,505	56,614	40,790	31,500	<b>385,348</b>
Financial assets at amortised cost – Loans and advances to customers	182,881	34,194	195,500	559,828	723,399	<b>1,695,802</b>
Financial assets at amortised cost - Receivables from the State budget	-	9,000	9,817	-	-	<b>18,817</b>
Financial assets at amortised cost - Receivables under finance lease	1,682	2,275	10,586	33,434	9,000	<b>56,977</b>
Financial assets at amortised cost - Securities	-	-	11	-	11,969	<b>11,980</b>
Financial assets at fair value through other comprehensive income – Debt instruments	752	59,443	51,654	477,391	68,409	<b>657,649</b>
Financial assets at fair value through other comprehensive income – Equity instruments	70,781	-	-	-	-	<b>70,781</b>
Other financial assets	1,109	699	3,080	-	-	<b>4,888</b>
<b>Total financial assets</b>	<b>717,779</b>	<b>145,116</b>	<b>327,262</b>	<b>1,111,443</b>	<b>844,277</b>	<b>3,145,877</b>
<b>Financial liabilities</b>						
Borrowings from international institutions	-	57,640	126,392	660,218	266,490	<b>1,110,740</b>
Deposits from customers other than credit institutions	669,998	4,872	34,440	28,720	-	<b>738,030</b>
Deposits from credit institutions	1,719	-	-	-	23	<b>1,742</b>
Other borrowings	4,311	11,238	899	985	69,940	<b>87,373</b>
Guarantee provisions	4,570	600	2,700	174,115	-	<b>181,985</b>
Lease liabilities	107	34	80	124	-	<b>345</b>
<b>Total financial liabilities</b>	<b>680,705</b>	<b>74,384</b>	<b>164,511</b>	<b>864,162</b>	<b>336,453</b>	<b>2,120,215</b>
<b>Gap in maturity thresholds of assets and liabilities</b>						
Contingencies and commitments	303,435	12,949	83,948	699,059	6,583	<b>1,105,974</b>

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.3. Liquidity risk (continued)**

<b>As of 31 December 2020</b>	<b>Within 1 month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Financial assets</b>						
Cash in hand and balances in current account with the Central Bank	496,279	-	-	-	-	<b>496,279</b>
Receivables from banks	294,215	66,097	25,358	58,364	34,666	<b>478,700</b>
Financial assets at amortised cost – Loans and advances to customers	157,937	29,058	153,600	643,054	845,601	<b>1,829,250</b>
Financial assets at amortised cost - Receivables from the State budget	9,573	21,575	26,676	-	-	<b>57,824</b>
Financial assets at amortised cost - Receivables under finance lease	812	1,091	4,888	20,807	12,013	<b>39,611</b>
Financial assets at amortised cost - Securities	-	-	11	-	12,045	<b>12,056</b>
Financial assets at fair value through other comprehensive income – Debt instruments	60,704	392,867	6,276	67,862	121,864	<b>649,573</b>
Financial assets at fair value through other comprehensive income – Equity instruments	57,709	-	-	-	-	<b>57,709</b>
Other financial assets	15,181	840	-	-	-	<b>16,021</b>
<b>Total financial assets</b>	<b>1,092,410</b>	<b>511,528</b>	<b>216,809</b>	<b>790,087</b>	<b>1,026,189</b>	<b>3,637,023</b>
<b>Financial liabilities</b>						
Borrowings from international institutions	668	33,032	95,820	654,368	455,016	<b>1,238,904</b>
Deposits from customers other than credit institutions	945,762	817	18,058	15,854	-	<b>980,491</b>
Deposits from credit institutions	8,155	-	-	-	21	<b>8,176</b>
Other borrowings	751	-	1,758	853	83,943	<b>87,305</b>
Guarantee provisions	127,448	-	-	-	-	<b>127,448</b>
Lease liabilities	-	169	110	-	-	<b>279</b>
<b>Total financial liabilities</b>	<b>1,082,784</b>	<b>34,018</b>	<b>115,746</b>	<b>671,075</b>	<b>538,980</b>	<b>2,442,603</b>
<b>Gap in maturity thresholds of assets and liabilities</b>	<b>9,626</b>	<b>477,510</b>	<b>101,063</b>	<b>119,012</b>	<b>487,209</b>	<b>1,194,420</b>
Contingencies and commitments	328,258	6,463	119,208	476,976	135,565	<b>1,066,470</b>

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.3. Liquidity risk (continued)**

The table below presents the gross undiscounted cash flows related to the Group's liabilities as of 31 December:

<b>As of 31 December 2021</b>	<b>Carrying amount</b>	<b>Gross flow</b>	<b>Less than 1 month</b>	<b>From 1 to 3 months</b>	<b>From 3 to 12 months</b>	<b>From 1 to 5 years</b>	<b>Over 5 years</b>
<b>Financial liabilities</b>							
Borrowings from international institutions	1,110,740	1,167,245	-	58,256	127,089	691,285	290,615
Deposits from customers other than credit institutions	738,030	738,190	669,998	4,873	34,448	28,871	-
Deposits from credit institutions	1,742	1,778	1,719	-	-	-	59
Lease liabilities	345	345	107	34	152	52	-
Other borrowings	88,126	89,950	5,305	11,292	953	1,652	70,748
	<b>1,938,983</b>	<b>1,997,508</b>	<b>677,129</b>	<b>74,455</b>	<b>162,642</b>	<b>721,860</b>	<b>361,422</b>
Credit guarantee and bank guarantee provisions	181,985	181,985	4,570	600	2,700	174,115	-
Unutilised credit commitments	209,829	209,829	28,053	9,946	68,187	100,143	3,500
 <b>As of 31 December 2020</b>							
<b>Financial liabilities</b>							
Borrowings from international institutions	1,238,904	1,315,769	668	33,215	96,363	689,822	495,701
Deposits from customers other than credit institutions	980,491	980,688	945,763	818	18,073	16,034	-
Deposits from credit institutions	8,176	8,176	8,155	-	-	-	21
Lease liabilities	279	279	-	169	110	-	-
Other borrowings	87,305	88,683	2,296	-	298	1,262	84,827
	<b>2,315,155</b>	<b>2,393,595</b>	<b>956,882</b>	<b>34,202</b>	<b>114,844</b>	<b>707,118</b>	<b>580,549</b>
Credit guarantee and bank guarantee provisions	127,368	127,368	6,556	12	96	56,871	63,833
Unutilised credit commitments	264,318	264,318	17,919	1,566	102,771	133,062	9,000

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.3. Liquidity risk (continued)**

Considering the specific activity of the Group, the funds attracted from the biggest 20 non-bank depositors as of 31 December 2021 represent 85.76% of the total amount of payables to other customers (31 December 2020: 88.08%). The share of the biggest non-bank depositor of the total amount of payables to other customers is 16.22% (31 December 2020: 15.82%).

The Group's financial assets available to be pledged for future financing and the financial assets pledged as collateral for financial liabilities are presented in the table below:

*As of 31 December 2021*

Financial assets	Pledged as collateral	Available for collateral	Other*	Total
Cash in hand and balances in current account with Central Bank	-	108,019	135,616	243,635
Receivables from banks	12,274	373,074	-	385,348
Financial assets at amortised cost – Loans and advances to customers	-	970,013	725,789	1,695,802
Financial assets at amortised cost – Receivables from the State budget	-	18,817	-	18,817
Financial assets at amortised cost - Net investment in finance leases	-	56,977	-	56,977
Financial assets at amortised cost – Securities	-	11,980	-	11,980
Financial assets at fair value through other comprehensive income – Debt instruments	6,482	651,167	-	657,649
Financial assets at fair value through other comprehensive income – Equity instruments	-	-	70,781	70,781
Other financial assets	-	2,772	2,116	4,888
<b>Total financial assets</b>	<b>18,756</b>	<b>2,192,819</b>	<b>934,302</b>	<b>3,145,877</b>

\***Other** are financial assets that are not encumbered and there are no restrictions to be used as collateral, but the Group would not consider them as available for future financing in the normal course of business.

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**4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

**4.3. Liquidity risk (continued)**

*As of 31 December 2020*

Financial assets	Pledged as collateral	Available for collateral	Other*	Total
Cash in hand and balances in current account with Central Bank	-	329,875	166,404	<b>496,279</b>
Receivables from banks	12,551	466,149	-	<b>478,700</b>
Financial assets at amortised cost – Loans and advances to customers	-	1,219,131	610,119	<b>1,829,250</b>
Financial assets at amortised cost – Receivables from the State budget	-	57,824	-	<b>57,824</b>
Financial assets at amortised cost - Net investment in finance leases	-	39,611	-	<b>39,611</b>
Financial assets at amortised cost – Securities	-	12,056	-	<b>12,056</b>
Financial assets at fair value through other comprehensive income – Debt instruments	6,488	643,085	-	<b>649,573</b>
Financial assets at fair value through other comprehensive income – Equity instruments	-	-	57,709	<b>57,709</b>
Other financial assets	-	1,575	14,446	<b>16,021</b>
<b>Total financial assets</b>	<b>19,039</b>	<b>2,769,306</b>	<b>848,678</b>	<b>3,637,023</b>

At 31 December 2021, funds amounting to BGN 12,274 thousand (2020: BGN 12,551 thousand) were blocked in counter-guarantees of two corporate customers, maturing as follows:

Receivables from banks pledged as collateral as per maturity interval	2021	2020
On demand	4,080	-
From 91 to 180 days	4,571	3,509
From 181 to one year	3,154	2,721
Over one year	469	6,321
<b>12,274</b>		<b>12,551</b>

As of 31 December 2021, securities on a legal requirement to provide for funds of the State budget amounting to BGN 6,482 thousand (2020: BGN 6,488 thousand) were blocked.

Review of the size, development and the credit quality of the unencumbered assets is done once a year.

\***Other** are financial assets that are not encumbered and there are no restrictions to be used as collateral, but the Group would not consider them as available for future financing in the normal course of business.

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#### **4. FINANCIAL RISK MANAGEMENT (CONTINUED)**

##### **4.4. Operational risk**

Risk Management, together with other Group divisions, monthly monitors and reports to ALCO on the ratios between the encumbered assets and the total carrying amount of the Group's assets. In a case of excess above the limits approved by the Management Board, ALCO reports back to the MB for undertaking corrective actions.

The main sources of operational risk within the Group are its personnel, processes, systems and external events. The Group designated the following as the major types of operational risk:

- Risk of loss due to inadequate or poorly working internal processes;
- Risk of loss due to inadequate, illegal and/or incorrect acts and omissions of personnel;
- Risk of loss due to inadequate or poorly working systems;
- Risk of loss due to external events, including legal risk.

Operational risk management is based on the principles of not taking unreasonable risks, strict compliance with the levels of competence and the applicable legislation. The Group applies reliable methods for limiting the impact of operational risks, including by dividing the functions and responsibilities, introducing double-checking control, levels of competence, internal control, etc. In addition, control procedures for reducing the operational risk are added to all internal rules and procedures of the Group.

In operational risk management all operational events, which occur in the activity of various units and processes of the Group, are strictly monitored and registered, while the events of higher frequency, as well as those of significant importance, serve as bases for the operational risk analyses in different scenarios. The operational risk is measurable and monitorable, and in the process of work an operational event register is kept, which is used as a basis for analysing and improving the work processes, and minimising the conditions that would potentially result in operational events and loss for the Group. For the purposes of measuring its operational risk, the Group has decided to apply the "Basic indicator method".

##### **4.5 Equity management**

The main objectives of the Group's capital management are to maintain its level at amounts sufficient for activity developing and achieving the general objectives set at its foundation – to support the economic policy of the country and the development of small and medium-sized businesses.

In its activities the Group should observe the regulatory requirements for capital adequacy (Notes 35, 36), as well as to continue operating as a going concern.

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**4. FINANCIAL RISK MANAGEMENT (continued)**

**4.5 Equity management (continued)**

The table below presents the main equity components following the regulatory requirements and ratios achieved on a consolidated group (as a Bank group) level:

	<b>2021</b>	<b>2020</b>
OWN FUNDS	1,082,587	1,056,889
TIER I CAPITAL	1,082,587	1,056,889
COMMON EQUITY TIER I CAPITAL	1,082,587	1,056,889
Share capital	1,441,774	1,301,774
Loss	(386,149)	(230,737)
Statutory reserves	87,185	87,185
Additional reserves	83,752	82,125
Accumulated other comprehensive income	(78,502)	(64,000)
Intangible assets	(8,074)	(8,087)
Investments in subsidiaries	(3,200)	(58,599)
(-) Common Equity Tier 1 instruments of financial sector entities when the institution has significant investments	(43,760)	(50,324)
Value adjustments due to prudential assessment requirements	(728)	(714)
Transitional adjustments to CET1 Capital	-	7,109
Deductible deferred tax assets that are based on future profit and arise from temporary differences	(9,711)	(8,843)
Components of or deductions from CET 1 Capital - other	-	-
ADDITIONAL TIER I CAPITAL	-	-
TIER II CAPITAL	-	-
 TOTAL RISK EXPOSURES	 3,003,470	 3,223,429
Credit risk - Standardised approach	2,871,845	3,093,129
Central governments or central banks	9,050	-
Regional governments or local authorities	1,920	1,930
Public sector entities	-	-
Multilateral development banks	939	939
Institutions	139,543	183,053
Corporates	1,511,403	1,961,293
Retail	452,175	142,324
Secured by mortgages on immovable property	293,812	411,185
Exposures in default	285,183	219,703
Items associated with particular high risk	71,130	41,033
Equity exposures	190	10,191
Other items	106,500	121,478
Currency and commodity risk	-	-
Operational risk - Basic indicator approach	131,625	130,300

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**4. FINANCIAL RISK MANAGEMENT (continued)**

**4.5 Equity management (continued)**

	<b>2021</b>	<b>2020</b>
<b>CET 1 Capital Ratio</b>	<b>36.04%</b>	<b>32.79%</b>
<b>Total Capital Ratio</b>	<b>36.04%</b>	<b>32.79%</b>
<i>Capital conservation buffer</i>	75,087	80,586
<i>Systemic risk buffer</i>	90,104	96,703
<i>Institution-specific countercyclical capital buffer</i>	15,017	16,117
<i>Buffer of other institutions of systemic importance</i>	15,017	16,117
 <u>Regulatory required levels</u>		
<i>Institution-specific countercyclical capital buffer</i>	6.25%	6.25%
<i>Systemic risk buffer</i>	7.75%	7.75%
<i>Buffer of other institutions of systemic importance</i>	9.75%	9.75%
 <i>Capital conservation buffer</i>	2.50%	2.50%
<i>Systemic risk buffer</i>	3.00%	3.00%
<i>Institution-specific countercyclical capital buffer</i>	0.50%	0.50%
<i>Buffer of other institutions of systemic importance</i>	0.50%	0.50%

By decision of BNB No93 of 15 March 2019, an additional requirement for Common Equity Capital was imposed on the BDB on the basis of Art. 103a, para. 2, item 5 of the Law on Credit Institutions, exceeding the requirements of Art. 92, para 1 of Regulation (EU) No 575/2013 of 1.75% to risk-weighted assets, or a minimum total capital adequacy of 9.75%.

By decision of the BNB under protocol No84 of 08 March 2022, communicated with a BNB letter ref. No 02544/16.03.2022, the BNB has initiated administrative proceedings for the issuance of an individual administrative act to determine an additional capital requirement for BDB EAD, the BDB has imposed an additional requirement for common equity, pursuant to Art. 103a, para. 2, item 5 of the LCI, exceeding the requirements under Art. 92, para 1 of Regulation (EU) 575/2013 at the amount of 2.25% to risk-weighted assets, or a minimum total capital adequacy of 10.25%, the requirement coming into force from the next regulatory reporting period.

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## 5. FAIR VALUE DISCLOSURE

The table below presents the carrying amount and fair values of financial assets and liabilities, including their levels in the fair value hierarchy.

As of 31.12.2021	Note	Carrying amount			Fair value			
		Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Other	Total	Level 1	Level 2	Level 3
<b>Assets measured at fair value</b>								
Debt instruments at fair value through other comprehensive income	21	-	657,649	-	<b>657,649</b>	657,649	-	-
Equity instruments at fair value through other comprehensive income*	21	-	70,781	-	<b>70,781</b>	63,391	-	6,112
Assets acquired from collateral foreclosure	27	-	-	34,719	<b>34,719</b>	-	-	34,719
Investment property	25	-	-	7,189	<b>7,189</b>	-	-	7,189
		-	<b>728,430</b>	<b>41,908</b>	<b>770,338</b>	<b>721,040</b>	-	<b>48,020</b>
								<b>769,060</b>
<b>Assets not measured at fair value</b>								
Cash in hand and balances in current account with the Central Bank	16	243,635	-	-	<b>243,635</b>	-	243,635	-
Loans to banks	17	71,900	-	-	<b>71,900</b>	-	76,104	-
Current accounts and term deposits of banks	17	313,448	-	-	<b>313,448</b>	-	313,448	-
Financial assets at amortized cost - Loans and advances to customers	18	1,695,802	-	-	<b>1,695,802</b>	-	1,733,482	-
Financial assets at amortized cost - Receivables from the State budget	19	18,817	-	-	<b>18,817</b>	-	24,661	-
Financial assets at amortized cost - Securities	20	11,980	-	-	<b>11,980</b>	12,836	1,659	-
Financial assets at amortized cost - Finance lease receivables	22	56,977	-	-	<b>56,977</b>	-	56,977	-
Other financial assets		4,888			<b>4,888</b>		4,888	<b>4,888</b>
		<b>2,417,447</b>	-	-	<b>2,417,447</b>	<b>12,836</b>	<b>2,454,854</b>	-
								<b>2,467,690</b>
<b>Liabilities not measured at fair value</b>								
Deposits from credit institutions - Current accounts and term deposits of banks	28	-	-	1,742	<b>1,742</b>	-	1,742	-
Deposits from other customers other than credit institutions	29	-	-	738,030	<b>738,030</b>	-	738,638	-
Borrowings from international institutions	30	-	-	1,110,740	<b>1,110,740</b>	-	1,142,764	-
Other borrowings and liabilities	31	-	-	87,373	<b>87,373</b>	-	88,470	-
		-	-	<b>1,937,885</b>	<b>1,937,885</b>	-	<b>1,971,614</b>	-
								<b>1,971,614</b>

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**5. FAIR VALUE DISCLOSURE (CONTINUED)**

As of 31.12.2020	Note	Carrying amount			Fair value			
		Financial assets at amortized cost	Financial assets at fair value through other comprehensive income	Other	Total	Level 1	Level 2	Level 3
<b>Assets measured at fair value</b>								
Debt instruments at fair value through other comprehensive income	21	-	649,573	-	<b>649,573</b>	649,573	-	-
Equity instruments at fair value through other comprehensive income	21		57,709	-	<b>57,709</b>	52,926	-	3,650
Assets acquired from collateral foreclosure	27	-	-	33,938	<b>33,938</b>	-	-	33,938
Investment property	25	-	-	7,608	<b>7,608</b>	-	-	7,608
		-	<b>707,282</b>	<b>41,546</b>	<b>748,828</b>	<b>702,499</b>	-	<b>45,196</b>
								<b>747,695</b>
<b>Assets not measured at fair value</b>								
Cash in hand and balances in current account with the Central Bank	16	496,279	-	-	<b>496,279</b>	-	496,279	-
Loans to banks	17	86,807	-	-	<b>86,807</b>	-	92,190	-
Current accounts and term deposits of banks	17	391,893	-	-	<b>391,893</b>	-	391,654	-
Loans and advances to customers	18	1,829,250	-	-	<b>1,829,250</b>	-	1,890,643	-
Receivables from the State budget	19	57,824	-	-	<b>57,824</b>	-	64,303	-
Securities at amortized cost	20	12,056	-	-	<b>12,056</b>	13,474	1,890	-
Financial assets at amortized cost – finance lease receivables	22	39,611	-	-	<b>39,611</b>	-	40,060	-
Other financial assets		16,021	-	-	<b>16,021</b>	-	16,021	-
		<b>2,929,741</b>	-	-	<b>2,929,741</b>	<b>13,474</b>	<b>2,993,040</b>	-
								<b>3,006,514</b>
<b>Liabilities not measured at fair value</b>								
Deposits from credit institutions – current accounts and term deposits from banks	28	-	-	8,176	<b>8,176</b>	-	8,176	-
Deposits from other customers other than credit institutions	29	-	-	980,491	<b>980,491</b>	-	980,790	-
Borrowings from international institutions	30	-	-	1,238,904	<b>1,238,904</b>	-	1,289,839	-
Other borrowings and liabilities	31	-	-	87,305	<b>87,305</b>	-	88,865	-
		-	-	<b>2,314,876</b>	<b>2,314,876</b>	-	<b>2,367,670</b>	-
								<b>2,367,670</b>

\* The fair value of securities classified as financial assets at fair value through other comprehensive income with carrying amount BGN 1,278 thousand as of 31 December 2021 (2020: BGN 1,133 thousand), which are held at cost is not disclosed, as the Bank considers that it cannot be reliably measured.

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## 5. FAIR VALUE DISCLOSURE (CONTINUED)

Fair value of assets and liabilities measured at fair value is presented in the following table by types of assets at the reporting date.

The Group has voluntarily disclosed the fair value of the assets acquired from collateral foreclosure as of 31 December 2021 and 31 December 2020.

Financial instrument	Fair value as of 31.12.2021	Fair value as of 31.12.2020	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Financial assets at fair value through other comprehensive income Debt instruments	657,649	649,573	Level 1	Quoted market price	N/A	N/A
Financial assets at fair value through other comprehensive income - Equity instruments	63,391	52,926	Level 1	Quoted market price	N/A	N/A
Financial assets at fair value through other comprehensive income - Equity instruments	6,112	3,650	Level 3	Discounted future cash flows  The revenue method for valuation of equity participation is an analysis of the value of the share in the valued enterprise, based on its ability to generate income through the distribution of dividends, as well as an estimate of the terminal value when selling shares. Determining the value of the assessed share is based on the permanently realized net annual income of the enterprise, which is distributed among the shareholders on the basis of estimated income, expenses, investment and financial cash flows. For the terminal value are taken similar transactions and / or sales at similar ratios - Price / profit, price / income, multiplier of (EBITDA) or others.	Sector analyzes, evaluation of the company's business plan, coefficients and multipliers for private transactions	The fair value will increase/decrease at:  - Favorable/unfavorable development in the sector - Favorable/unfavorable positioning of the enterprise in the sector - Favorable/unfavorable development of the coefficient and multipliers of the assessed company compared to similar companies

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**5. FAIR VALUE DISCLOSURE (CONTINUED)**

Financial instrument	Fair value as of	Fair value as of	Fair value hierarchy	Valuation techniques	Significant inputs	unobservable	Relationship of unobservable inputs to fair value
	<b>31.12.2021</b>	<b>31.12.2020</b>					
Investment property	7,189	7,608	Level 3	<p>Market analogues method</p> <p>Under the market analogues method an assessment is made by directly comparing the property under review with sold similar properties; the price is determined on the basis of a range of prices of similar property or prices per sq. m. previous transactions. When applying this approach, it is necessary to use actually similar data of the comparable properties, the properties should be in the same location and the timing of the transaction and the date of preparation of the evaluation should be close enough. Currently, investment property is assessed between BGN 109 and BGN 1,523 /sq. m.</p> <p>Income capitalisation method (revenue method)</p>	<p>Market analogues method:</p> <ol style="list-style-type: none"> <li>1. Market realisation coefficient (0.8-0.95)</li> <li>2. Location coefficient (0.81-1.0)</li> <li>3. Coefficient of specific features (status) (0.8-1.1)</li> <li>4. Offer market adequacy adjustment coefficient (from -10% to +5%)</li> </ol>		<p>The higher (lower) fair value if:</p> <ul style="list-style-type: none"> <li>- Higher (lower) market realisation coefficient</li> <li>- Higher (lower) location coefficient</li> <li>- Higher (lower) coefficient of specific features (status)</li> <li>- Higher (lower) offer market adequacy adjustment coefficient</li> <li>- price growth is expected to be higher (lower)</li> <li>- the levels of unoccupied space are low (high)</li> <li>- discount rate is lower (higher)</li> </ul>
Assets, acquired from collateral foreclosure	34,719	33,938	Level 3	<p>The revenue method, used for assessing the real estate value, consists of an analysis of the value of the real estate based on its ability to generate income through capitalisation of the net income derived from the property over a given period. For the determination of the evaluated property's amount, the permanently generated net annual income is used and its amount is calculated on the basis of the actual or possible permanently achieved rental income, which in turn is calculated on the basis of the average offered rent in the area (observable inputs), by taking into account the condition of the building fund and the residual term of use. Currently, rental levels of leased investment property vary between BGN 1-14/sq. m.</p>	<p>Income capitalisation method (revenue method):</p> <ol style="list-style-type: none"> <li>1. rent per sq. m. – BGN 1-14/ sq. m.</li> <li>2. price growth assumptions – 0-10%</li> <li>3. levels of vacant unoccupied space – 3-25%</li> <li>4. discount rate – 5-9%</li> </ol>		

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**5. FAIR VALUE DISCLOSURE (CONTINUED)**

Fair values of financial assets and liabilities that are not measured at fair value, but a disclosure at fair value is required.

Financial instrument	Fair value as of	Fair value as of	Fair value hierarchy	Valuation techniques	Significant inputs	unobservable	Relationship of unobservable inputs to fair value
<b>31.12.2021    31.12.2020</b>							
Loans to banks	76,104	92,190	Level 2	Discounted cash flows  Future cash flows are discounted by EURIBOR for 12 months but not less than 0, adjusted for yield curve of Bulgarian government securities on primary market according to Bloomberg publication	N/A		N/A
Loans and advances to customers	1,733,482	1,890,643	Level 2	Discounted cash flows  Future cash flows are measured using the contractual effective interest rates for respective exposures based on officially published by BNB interest rates (unadjusted) of new loans for December of the respective year.	N/A		N/A
Receivables from the State budget	24,661	64,303	Level 2	Discounted cash flows  Future cash flows are measured using the officially published by BNB yield of Bulgarian government securities (unadjusted) for December of the respective year.	N/A		N/A
Financial assets at amortized cost - Securities	12,836	13,474	Level 1	Quoted market price	N/A		N/A

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**5. FAIR VALUE DISCLOSURE (CONTINUED)**

Financial instrument	Fair value as of	Fair value as of	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	31.12.2021	31.12.2020				
Securities at amortized cost	1,659	1,890	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB interest rates (unadjusted) of new loans to non-financial entities for December of the respective year.	N/A	N/A
Financial assets at amortized cost - lease receivables	56,977	40,060	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB interest rates (unadjusted) of new loans to non-financial entities for December of the respective year	N/A	N/A
Other financial assets	4,888	16,021	Level 2	Discounted cash flows  The revenue method for valuation of equity participation is an analysis of the value of the share in the valued enterprise, based on its ability to generate income through the distribution of dividends, as well as an estimate of the terminal value when selling shares. Determining the value of the assessed share is based on the permanently realized net annual income of the enterprise, which is distributed among the shareholders on the basis of estimated income, expenses, investment and financial cash flows. For the terminal value are taken similar transactions and / or sales at similar ratios - Price / profit, price / income, multiplier of (EBITDA) or others.	Sector analyzes, evaluation of the company's business plan, coefficients and multipliers for private transactions	The fair value will increase/decrease at: - Favorable/unfavorable development in the sector - Favorable/unfavorable positioning of the enterprise in the sector - Favorable/unfavorable development of the coefficient and multipliers of the assessed company compared to similar companies
Other borrowings	88,470	88,865	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB yield of Bulgarian government securities (unadjusted) for December of the respective year.	N/A	N/A
Borrowings from international institutions	1,142,764	1,289,839	Level 2	Discounted cash flows Future cash flows are measured using the officially published by BNB yield of Bulgarian government securities (unadjusted) for December of the respective year.	N/A	N/A

For the assets and liabilities from the statement of financial position not disclosed in the table the Group's management is of the opinion that their fair value approximates their carrying amount.

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**6. NET INTEREST INCOME**

	<b>2021</b>	<b>2020</b>
<b>Interest income</b>		
Loans and advances to customers	70,944	71,119
Loans to banks	1,131	1,426
Deposits placed with other banks	188	130
Receivables from the State budget	320	2,742
Securities at amortized cost	3,921	261
Financial assets at fair value through other comprehensive income	259	4,393
Other income, incl. effect of negative interest	1,244	587
	<b>78,007</b>	<b>80,658</b>
Interest income on finance lease	2,069	813
	<b>80,076</b>	<b>81,471</b>
Incl. Interest income on financial assets at amortized cost classified in Stage 3	23,395	16,969
<b>Interest expenses</b>		
Borrowings from international institutions	(15,267)	(15,802)
Deposits from customers	(203)	(290)
Other borrowings	(113)	(120)
Deposits from other banks	(69)	(1)
Other expenses, incl. expenses for negative interest	(3,053)	(3,565)
	<b>(18,705)</b>	<b>(19,778)</b>
Interest expenses on finance lease	(18)	(68)
	<b>(18,723)</b>	<b>(19,846)</b>
<b>Net interest income</b>	<b>61,353</b>	<b>61,625</b>

All interest income, except interest income on financial assets at fair value through other comprehensive income, arises from financial assets carried at amortized cost and recognized using the effective interest method.

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**7. NET FEE AND COMMISSION (EXPENSE)/INCOME**

	<b>2021</b>	<b>2020</b>
Fee and commission income		
Issuance of guarantees and letters of credit	569	3,790
Transaction-related services *	5,009	2,023
Account maintenance	165	104
<b>Total fee and commission income from contract with customers</b>	<b>5,743</b>	<b>5,917</b>
Other charges	1,466	461
<b>Total fees and commissions income</b>	<b>7,209</b>	<b>6,378</b>
Fee and commission expenses		
Co-management fee COVID guarantees	(3,970)	(1,530)
Servicing of accounts with other banks	(11)	(45)
Agent's commissions	(22)	(35)
Transfers and treasury operations in other banks	(166)	(5)
Other charges	(6)	(48)
<b>Total fee and commission expenses</b>	<b>(4,175)</b>	<b>(1,663)</b>
<b>Net fee and commission (expense)/income</b>	<b>3,034</b>	<b>4,715</b>

\* Transaction-related services include the trust management of special-purpose funds of the Ministry of Agriculture and Food and the Executive Agency Fisheries and Aquacultures amounting to BGN 773 thousand (2020: BGN 1,301 thousand). See note № 31 for more information regarding the programmes.

Fee and commission income represents revenue reported under IFRS 15 Revenue from Contracts with Customers (see Note 3.5 for details on the recognition of fee and commission income). The source of income are transactions made on the territory of Bulgaria. The prices of the respective services are fixed.

**8. NET GAIN ON FOREIGN EXCHANGE DEALS**

	<b>2021</b>	<b>2020</b>
Net gain on dealing in foreign currencies	419	468
Net gain/(loss) on foreign currency translation of assets and liabilities	7	(11)
<b>426</b>	<b>457</b>	

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**9. GAIN ON SECURITIES MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

	<b>2021</b>	<b>2020</b>
Net gain on dealing in securities measured at fair value through OCI, incl. realised revaluation reserve	1,101	2,432
	<b>1,101</b>	<b>2,432</b>

**10. OTHER OPERATING INCOME**

	<b>2021</b>	<b>2020</b>
Income from rent of investment property	890	671
Refunded litigation expenses	192	259
Dividends received	76	26
Proceeds from disposal of FTA (fixed tangible assets)	103	51
Income from revaluation of investment properties	29	153
Other income	1,178	1,126
	<b>2,468</b>	<b>2,286</b>

**11. OTHER OPERATING EXPENSES**

	<b>2021</b>	<b>2020</b>
Expenses on assets held for sale	(445)	(379)
Direct operating expenses relating to investment property	(244)	(206)
Litigation expenses	(37)	(27)
Expenses on disposal of FTA	(90)	-
Loss from revaluation of investment properties	(462)	-
Impairment of goodwill – controlled enterprises	-	(17)
Other expenses	(460)	(271)
	<b>(1,738)</b>	<b>(900)</b>

**12A. NET EXPENSES FOR IMPAIRMENT OF FINANCIAL INSTRUMENTS**

	<b>2021</b>	<b>2020</b>
(Expense for)/Income from reversed impairment of loans, net	(129,619)	(138,871)
(Expense for)/Income from impairment of unutilized loans	28	80
Income from reversed/ (expense for) impairment of finance lease	(676)	(274)
(Expense for)/income from reversed guarantee provisions, net	(54,561)	(118,912)
(Expense for) /Income from reversed provision on securities at fair value through other comprehensive income, net	(1,688)	(784)
(Expense for) /Income from reversed provisions on securities at amortized cost, net	(42)	(61)
<b>Net expenses for impairment of financial instruments</b>	<b>(186,558)</b>	<b>(258,822)</b>

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**12B. NET EXPENSES FOR IMPAIRMENT OF NON-FINANCIAL ASSETS**

	<b>2021</b>	<b>2020</b>
Expenses for impairment of assets acquired from collateral foreclosure	(407)	(3,281)
Impairment of subsidiaries	(258)	(1,287)
<b>Net expenses for impairment of non-financial assets</b>	<b>(665)</b>	<b>(4,568)</b>

**13A. EMPLOYEE BENEFITS**

	<b>2021</b>	<b>2020</b>
Staff remuneration and social security	(18,636)	(17,509)
Remuneration to members of the Management and Supervisory Boards	(3,076)	(3,144)
	<b>(21,712)</b>	<b>(20,653)</b>
	<b>2021</b>	<b>2020</b>
Staff remuneration and social security:		
Salaries	(16,190)	(15,360)
Social security	(2,063)	(1,838)
Social benefits	(232)	(186)
Amounts accrued on retirement benefits	(151)	(125)
	<b>(18,636)</b>	<b>(17,509)</b>

**13B. GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>2021</b>	<b>2020</b>
Hired services	(1,844)	(1,004)
Communications and IT services	(1,677)	(1,374)
Legal and consulting services	(1,527)	(408)
Office and office equipment maintenance	(1,395)	(1,508)
Advertising and entertainment expenses	(1,355)	(1,135)
Audit services by the registered auditors	(1,086)	(961)
Taxes and government charges	(410)	(285)
Advisory services provided by the registered auditors	(103)	(269)
Contribution to the Bulgarian Deposit Insurance Fund (BDIF)	(65)	(61)
Business trips	(42)	(32)
Materials	(12)	-
Rents	(8)	(11)
Contribution to the Bank Resolution Fund (BRF)	-	(7,740)
Bank supervision fees	-	(681)
	<b>(9,524)</b>	<b>(15,469)</b>

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**13B. GENERAL AND ADMINISTRATIVE EXPENSES (CONTINUED)**

The amounts charged for the year for services provided by the registered audit firms of the Group include: independent financial audit: BGN 1,086 thousand (2020: BGN 961 thousand), as well as agreed-upon procedures for BGN 52 thousand (2020: BGN 48 thousand), tax advisory services – BGN 0 thousand (2020.: BGN 0 thousand), other services not related to audit BGN – BGN 103 thousand (2020.: BGN 269 thousand).

**14. TAXATION**

	<b>2021</b>	<b>2020</b>
Current tax expense	290	75
Deferred tax benefit due to temporary differences	(104)	(352)
<b>Total (expense for)/benefit from income tax</b>	<b>186</b>	<b>(277)</b>

	<b>2021</b>	<b>2020</b>
Accounting loss	(155,069)	(231,765)
Income tax calculated at the effective tax rate (10% for 2021 and 2020)	15,507	23,177
Expense on non-deductible expenses	(175)	(241)
Non-deductible income	995	9,185
Tax loss asset not recognized	(16,513)	(31,844)
<b>Total (expense)/benefit</b>	<b>(186)</b>	<b>277</b>
Effective tax rate	Not applicable	Not applicable

The deadline by which the Group companies could deduct the loss from future profits is 31.12.2026.

Outstanding balances of deferred taxes relate to the following items of the consolidated statement of financial position and changes in the consolidated statement of comprehensive income:

	<b>Assets</b>		<b>Liabilities</b>		<b>Changes in the consolidated statement of comprehensive income</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Property and equipment	(6)	(6)	-	-	-	11
Other assets	(79)	(97)	-	-	18	164
Other liabilities	(12)	(11)	15	14	-	70
Securities at fair value through other comprehensive income	(9,642)	(8,950)	-	68	(760)	(9,630)
Investment properties	-	-	29	153	(124)	153
	<b>(9,739)</b>	<b>(9,064)</b>	<b>44</b>	<b>235</b>	<b>(866)</b>	<b>(9,232)</b>

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**14. TAXATION (CONTINUED)**

The changes in the temporary differences during the year are recognised in the consolidated statement of comprehensive income.

The probability that the individual differences might reverse in the future and the Group's ability to generate sufficient taxable profit have also been taken into account on recognising deferred tax assets.

**15. NET CHANGE IN THE FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

	<b>2021</b>	<b>2020</b>
Gain /(Loss) on impairment of financial assets measured at fair value through other comprehensive income – debt instruments, arising during the year	(3,350)	1,051
Gain /(Loss) on revaluation of equity instruments arising during the year	(12,055)	(90,781)
10% tax	1,541	9,078
Unrecoverable and not recognized in revaluation reserve	(649)	-
<b>Other comprehensive income for the year, net of tax</b>	<b>(14,513)</b>	<b>(80,652)</b>

**16. CASH IN HAND AND BALANCES IN CURRENT ACCOUNT WITH THE CENTRAL BANK**

	<b>2021</b>	<b>2020</b>
Cash in hand	849	601
Current account with the Central Bank	242,786	495,678
<i>Incl. Minimum statutory reserves</i>	<i>135,616</i>	<i>166,404</i>
<b>Total cash with the Central Bank</b>	<b>242,786</b>	<b>495,678</b>
<b>Total cash in hand and in accounts with the Central Bank</b>	<b>243,635</b>	<b>496,279</b>

The Parent bank maintains amounts depending on risk-weighted assets such as Minimum Reserve Requirements with the BNB. The current account with the Central Bank bears interest rate of minus 0.70% on the excess over 105% of the minimum statutory reserves (2020: minus 0.70%).

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**17. RECEIVABLES FROM BANKS**

	<b>2021</b>	<b>2020</b>
Current accounts and demand deposits with local banks	201	517
Current accounts and demand deposits with foreign banks	33,739	35,375
<b>Total current accounts and demand deposits</b>	<b>33,940</b>	<b>35,892</b>
<i>incl. Current accounts with an original maturity of less than 90 days</i>	<i>21,667</i>	<i>23,340</i>
Term deposits with local banks (incl. repo deals)	-	153,790
Term deposits with foreign banks	279,508	202,211
<b>Total term deposits</b>	<b>279,508</b>	<b>356,001</b>
<i>incl. Term deposits with an original maturity of less than 90 days</i>	<i>220,590</i>	<i>259,737</i>
Loans to local banks	73,990	88,795
<b>Total loans granted</b>	<b>73,990</b>	<b>88,795</b>
Allowance for impairment and uncollectibility of receivables from banks	(2,090)	(1,988)
	<b>385,348</b>	<b>478,700</b>

As of 31 December 2021, special-purpose loans, denominated in BGN and EUR, with original maturity of up to 10 years and interest rate levels ranging from 1.50% to 4.50% (2020: 1.50% to 4.50%), were extended with the aim to develop small and medium-sized enterprises.

Funds amounting to BGN 12,274 thousand were blocked in current accounts with foreign banks to cover letters of credit (2020: BGN 12,551 thousand).

As of 31 December 2021, loans were provided to local banks denominated in foreign currency with nominal amount of EUR 5,745 thousand and equivalent to BGN 11,236 thousand (31 December 2020: BGN 11,236 thousand), with an original maturity until 2027 and repayment of the loans in four instalments. These are special-purpose loans extended to banks for direct lending to customers with the aim to develop small and medium-sized enterprises (SMEs) in accordance with a loan financing by the Ministry of Finance with funds provided by KfW.

**Disclosure of exposures to banks that would be adversely affected by EU sanctions following the Russian invasion of Ukraine.**

Following the Russian invasion of Ukraine on 24 February 2022, the EU imposed sanctions on Russian companies and individuals. These sanctions included the freezing of assets, exclusion from payment systems and others aimed at restricting the activities of Russian or Russian-controlled companies. The Group has the following exposures to Russian or Russian-controlled banks:

***International Bank for Economic Co-operation (IBEC)***

As of 31 December 2021, the Bank has receivables on deposits in IBEC (headquartered in Moscow, Russian Federation) with BGN equivalent of BGN 10,029 thousand, maturing on 2 March 2022. Upon maturity, IBEC paid the interest due, but not the principal of the deposit, which was overdue for a short period and subsequently repaid. As of the date of issuance of these financial statements, the Group has no receivables from IBEC.

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**17. RECEIVABLES FROM BANKS (CONTINUED)**

***International Investment Bank (IIB)***

As of 31 December 2021, the Bank has receivables on deposits with IIB, headquartered in Moscow with BGN equivalent of BGN 74,308 thousand to the International Investment Bank (IIB), headquartered in Budapest. The deposits are due, respectively:

- BGN 19,553 thousand - on 15 February 2022;
- BGN 5,866 thousand - on 17 February 2022;
- BGN 48,889 thousand - on 12 April 2022.

As of the date of these financial statements, the Group has no receivables from the IIB.

**18. LOANS AND ADVANCES TO CUSTOMERS**

	<b>2021</b>	<b>2020</b>
Loans (gross amount)	2,042,171	2,087,855
Allowance for impairment and uncollectibility of loans	(346,369)	(258,605)
	<b><u>1,695,802</u></b>	<b><u>1,829,250</u></b>
	<b>2021</b>	<b>2020</b>
A. Analysis by types of customers		
Private enterprises and sole traders	2,037,781	2,085,174
Municipalities	427	427
Individuals	3,963	2,254
	<b><u>2,042,171</u></b>	<b><u>2,087,855</u></b>

The following page provides an analysis of the customers by sectors.

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**18. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**

	<b>2021</b>	<b>2020</b>
B. Analysis by industry sector		
Industry, total	329,114	435,264
<i>Industry – manufacture of tobacco products</i>	-	148,640
<i>Industry – manufacture of plant and equipment</i>	91,086	78,015
<i>Industry – energy generation and distribution</i>	80,116	115,818
<i>Industry – manufacture of foodstuffs</i>	46,465	46,823
<i>Industry – other industries</i>	111,447	45,968
Trade	648,245	458,169
Tourist services	275,077	268,435
Transport	208,761	257,313
Financial services	132,649	215,319
Construction	143,635	159,226
Government sector	148,154	128,516
Real estate transactions	57,903	58,149
Agriculture	35,561	48,402
Waste collection and disposal	612	-
Other industries	62,460	59,062
	<b>2,042,171</b>	<b>2,087,855</b>

The Group finances mainly the activities of small and medium-sized enterprises, as well as investment projects to achieve return from 5 to 10 years.

C. Movement in the allowance for loan impairment and uncollectability

	<b>2021</b>	<b>2020</b>
<b>As of 1 January</b>	<b>258,605</b>	<b>161,315</b>
Impairment costs	227,794	168,611
Reversed impairment	(98,175)	(29,740)
Written-off against impairment	(41,855)	(41,581)
<b>As of 31 December</b>	<b>346,369</b>	<b>258,605</b>

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**19. RECEIVABLES FROM THE STATE BUDGET**

	<b>2021</b>	<b>2020</b>
Energy Efficiency of Multi-Family Buildings National Programme	18,866	57,975
Adjustment for impairment and uncollectability of loans	(49)	(151)
	<b>18,817</b>	<b>57,824</b>

By Decree No. 18 of 2 February 2015, the Council of Ministers of the Republic of Bulgaria approved Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP) (the Programme) on the terms and conditions for grants award under the Programme and for designating the bodies that will be in charge of its implementation.

The financing under the Programme goes through BDB. For the purpose, the Bank concludes trilateral agreements with regional governors (representatives of the State) and municipal mayors (authorized representatives of the owners' associations).

The Parent Bank believes that the existing receivables bear a minimal credit risk in so far as the source of the payments is the budget of the Republic of Bulgaria. The resources attracted by international partners for the purpose of financing the Programme is covered by a State guarantee (see Note 30).

Funds utilised and not paid under the Programme as of 31 December 2021 amount to BGN 18,866 thousand (as of 31.12.2020: BGN 57,975 thousand).

**20. SECURITIES MEASURED AT AMORTIZED COST**

The available debt securities, financial assets measured at amortized cost as of 31 December 2021 and 31 December 2020 are as follows:

	<b>2021</b>	<b>Amortized cost</b>	<b>Impairment</b>	<b>Carrying amount</b>
Bonds denominated in BGN		12,170	(190)	11,980
		<b>12,170</b>	<b>(190)</b>	<b>11,980</b>
	<b>2020</b>	<b>Amortized cost</b>	<b>Impairment</b>	<b>Carrying amount</b>
Bonds denominated in BGN		12,204	(148)	12,056
		<b>12,204</b>	<b>(148)</b>	<b>12,056</b>

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**21. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

	<b>2021</b>	<b>2020</b>
Government securities	610,011	626,924
Corporate bonds	<u>47,638</u>	<u>22,649</u>
<b>Total debt instruments</b>	<b><u>657,649</u></b>	<b><u>649,573</u></b>
Public companies' shares	43,767	50,331
<i>Incl. shares of First Investment Bank AD</i>	<u>43,760</u>	<u>50,324</u>
Non-public companies' shares	<u>25,919</u>	<u>6,428</u>
Participation in investment program SIA (Note 37)	<u>1,095</u>	<u>950</u>
<b>Total equity instruments</b>	<b><u>70,781</u></b>	<b><u>57,709</u></b>

Movement in financial assets measured at fair value through other comprehensive income:

<b>Debt instruments</b>	<b>2021</b>	<b>2020</b>
<b>As of 1 January</b>	<b><u>649,573</u></b>	<b><u>596,967</u></b>
Additions (purchases)	329,832	152,301
Disposals (sales and/or maturity)	(316,049)	(107,776)
Net increase/(decrease) due to revaluation of securities at fair value through OCI	<u>(5,707)</u>	<u>8,081</u>
<b>As of 31 December</b>	<b><u>657,649</u></b>	<b><u>649,573</u></b>
<b>Equity instruments</b>	<b>2021</b>	<b>2020</b>
<b>As of 1 January</b>	<b><u>57,709</u></b>	<b><u>3,578</u></b>
Additions (purchases)	30,199	140,640
Disposals (sales)	(5,071)	-
Net increase/(decrease) due to revaluation of securities at fair value through OCI	<u>(12,056)</u>	<u>(86,509)</u>
<b>As of 31 December</b>	<b><u>70,781</u></b>	<b><u>57,709</u></b>

**Debt instruments**

Financial assets measured at fair value through other comprehensive income – debt instruments comprise mainly government securities with the issuer being the Republic of Bulgaria or other European countries, and corporate bonds.

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**21. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)**

**Equity instruments**

***Public companies' shares***

Financial assets measured at fair value through other comprehensive income – equity instruments, consist of the following securities:

***First Investment Bank AD***

Bulgarian Development Bank EAD holds 27,350,000 shares, representing 18.35% of the capital of First Investment Bank AD, with a single nominal value of BGN 1.

The Bank has elected to classify this investment as financial asset measured at fair value through other comprehensive income, since the investment is long-term and strategic, it is not held for trading, and it is not a contingent consideration recognised in accordance with IFRS 3.

As of 31 December 2021, the Bank has assessed its participation in the capital of FIB according to the closing price received by the Bulgarian Stock Exchange (BSE) for shares of FIB on the last working day of the month of December 2021: BGN 1.6000 (31.12.2020: BGN 1.8400) per share .

***Chimimport AD***

The Bank holds 9,632 shares of the Chimimport conglomerate. As of 31.12.2021 the price per share is BGN 0.68 and the total amount of the investment is BGN 7 thousand (as of 31.12.2020: BGN 7 thousand).

***Non-public companies' shares***

***Three Seas Initiative***

By Decision No 613 of 2 September 2020, the Council of Ministers of the Republic of Bulgaria approved the participation of BDB in the Investment Fund of the "Three Seas" Initiative. The participation of BDB is related to a contribution of EUR 20 million in the capital of a specially created company. The Three Seas Initiative has an objective to strengthen investments, relations and cooperation – political and financial, between the member states in the region. This is a public-private financial instrument whose purpose is to complement the financing from the European Union's structural and other funds.

As of 31 December 2020, BDB has transferred EUR 7,014 thousand (BGN 13,717 thousand) to cover its participation in the investments in the Three Seas Fund up to this stage. Since the certificate for purchased shares has been received after the date of the financial statements, as of 31 December 2020, the amount has been reported in "Prepayments and advances" (Note 27), whereas the commitment for contribution in equity, which is not yet due is reported in Note 37 Contingencies and Commitments as of 31 December 2021.

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**21. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)**

**Equity instruments (continued)**

***Non-public companies' shares***

The Fund manager periodically reports the net value of the assets for this instrument and the Bank revalues its participation according to it.

The Bulgarian Development Bank EAD nominated two representatives to the management of the Three Seas Investment Fund – in March 2021 the executive directors of BDB Nikolay Dimitrov and Panayot Filipov were elected at the General Meeting of the Three Seas Investment Fund and to represent Bulgaria in the Investment Fund. After changes in the management of the BDB as new representatives of the Bank by decision of the General Meeting of the Investment Fund of 22 September 2021 were elected: as member of the Supervisory Board of the Investment Fund – Mr. Tsanko Arabadzhiev – member of the Management Board of BDB and Executive Director and Mr. Ilia Lingorski – Chief economist of the BDB as member of the Management Board of the Investment Fund, which will provide part of the necessary funding to strengthen the co-operation between the member-states in the Black, Adriatic and Baltic Sea region. In July 2021 the BDB hosted an investment panel during the Three Seas Forum in Bulgaria.

As of 31 December 2021, the amount of the investment of BDB in the Three Seas Fund is BGN 14,321 thousand (as of 31.12.2020: BGN 13,717 thousand.<sup>10</sup>) The commitment for capital contribution, which is still not due is disclosed in note 37 Contingencies and commitments.

***Other non-public companies' shares***

***European Investment Fund***

The non-public companies' shares held by the Bank include shares of the European Investment Fund (EIF) amounting to BGN 5,304 thousand. The portion of the nominal value of the acquired shares of EIF, which has not been paid, is due after a decision is taken by the General Meeting of Shareholders of EIF.

***Social Impact Accelerator (SIA)***

BDB participates in the EIF initiative Social Impact Accelerator (SIA), providing funding for start-up companies. As of 31 December 2021, eighteen equity contributions were made under the initiative amounting to EUR 560 thousand equivalent to BGN 1,095 thousand (2020: EUR 486 thousand equivalent to BGN 950 thousand).

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<sup>10</sup> As the certificate for purchased shares was received after the date of the report, as of 31.12.2020 the amount is reflected in "Prepaid expenses and advances".

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**21. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTINUED)**

**Equity instruments (continued)**

***Non-public companies' shares (continued)***

*Borica AD*

The remaining portion of the non-public companies' shares amounting to BGN 183 thousand represent shares of the company licensed as a payment system operator under the Bulgarian law – BORICA AD. Only banks can be shareholders of this company and they acquire shares following a specific procedure; the share price is determined using a formula specified in the company's Statute.

The shares of FIB, Three Seas Fund and other non-public companies held by the Bank are reported at fair value through other comprehensive income and the Bank considers that the conditions in paragraph 5.7.5 of IFRS 9 have been met, as these shares are neither held for trading nor represent a contingent consideration, recognized by the buyer in a business combination, for which IFRS 3 is applied.

The revaluation reserve formed on financial assets measured at fair value through other comprehensive income is presented in Note 36.

**22. NET INVESTMENT IN FINANCE LEASE**

The net investment in finance lease is the difference between the gross investment in the finance lease, less any unearned finance income, and the accumulated impairment losses.

	<b>2021</b>	<b>2020</b>
Gross investment in finance leases	63,184	44,380
Unearned finance income	(4,760)	(3,998)
<b>Net minimum lease payments</b>	<b>58,424</b>	<b>40,382</b>
Impairment loss	(1,447)	(771)
<b>Net investment in finance lease</b>	<b>56,977</b>	<b>39,611</b>

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**22. NET INVESTMENT IN FINANCE LEASE (CONTINUED)**

**Disclosure required by IFRS 16**

During the year the receivables under finance lease contracts increased due to the conclusion of new lease contracts. As of 31 December 2021, a total of 210 lease contracts have been signed, 172 of which are in active portfolio (2020: 126 contracts, 85 in active portfolio).

The Group has entered into finance lease contracts as a lessor for specific equipment. The average term of a finance lease is 10 years for equipment and 3-8 years for other assets. In general, these leases do not include options for extension or early termination.

The Group is not exposed to currency risk as a result of lease arrangements, as all leases are denominated in EUR or BGN. The residual value risk for rental equipment is insignificant due to the existence of a secondary market for the equipment.

Allocation of net finance lease investment:

	<b>2021</b>	<b>2020</b>
Repayment not later than one year	15,235	6,736
Repayment later than one year and no later than two years	12,862	7,081
Repayment later than two years and no later than three years	7,366	6,082
Repayment later than three years and no later than four years	6,883	4,557
Repayment later than four years and no later than five years	6,230	4,361
Repayment after five years	9,848	11,565
<b>Net minimum lease payments</b>	<b>58,424</b>	<b>40,382</b>
Impairment loss	(1,447)	(771)
<b>Net investment in finance lease</b>	<b>56,977</b>	<b>39,611</b>

Movement in the allowance for impairment:

	<b>2021</b>	<b>2020</b>
<b>Balance as of 1 January</b>	<b>(771)</b>	<b>(592)</b>
Impairment during the year:		
Charge for the year	(676)	(257)
Reversed for the year	-	10
Written off	-	68
<b>Balance as of 31 December</b>	<b>(1,447)</b>	<b>(771)</b>

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### 23. RIGHT-OF-USE ASSETS

Right-of-use assets are related to rent agreements recognized according to IFRS 16 Lease.

	Properties	Total as of 31 December 2021
Cost	242	242
Accumulated depreciation	(65)	(65)
<b>Net book value</b>	<b>177</b>	<b>177</b>

	Properties	Total as of 31 December 2020
Cost	172	172
Accumulated depreciation	(64)	(64)
<b>Net book value</b>	<b>108</b>	<b>108</b>

### 24. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS

	Land and buildings	Bank equipment and computers	Fixtures and fittings	Motor vehicles	Licences and software	Total
<b>Cost</b>						
<b>As of 1 January 2020</b>	<b>38,243</b>	<b>3,107</b>	<b>731</b>	<b>1,110</b>	<b>6,131</b>	<b>49,322</b>
Additions	22,338	784	86	587	4,520	28,315
Disposals	-	(51)	(4)	(358)	-	(413)
<b>As of 31 December 2020</b>	<b>60,581</b>	<b>3,840</b>	<b>813</b>	<b>1,339</b>	<b>10,651</b>	<b>77,224</b>
Additions	(16)	100	27	23	2,229	2,363
Disposals	-	(4)	-	(252)	(1,150)	(1,406)
<b>As of 31 December 2021</b>	<b>60,565</b>	<b>3,936</b>	<b>840</b>	<b>1,110</b>	<b>11,730</b>	<b>78,181</b>
<b>Accumulated depreciation/amortization</b>						
<b>As of 1 January 2020</b>	<b>3,866</b>	<b>1,737</b>	<b>409</b>	<b>563</b>	<b>1,263</b>	<b>7,838</b>
Charge for the year	775	536	87	194	1,128	2,720
Written off	-	(51)	(4)	(283)	-	(338)
Impairment on consolidated basis	358	-	1	-	-	359
<b>As of 31 December 2020</b>	<b>4,999</b>	<b>2,222</b>	<b>493</b>	<b>474</b>	<b>2,391</b>	<b>10,579</b>
Charge for the year	1,128	593	96	223	1,112	3,152
Written off	-	(3)	-	(167)	-	(170)
Impairment on consolidated basis	200	-	11	-	-	211
<b>As of 31 December 2021</b>	<b>6,327</b>	<b>2,812</b>	<b>600</b>	<b>530</b>	<b>3,503</b>	<b>13,772</b>
<b>Net book value</b>						
<b>As of 1 January 2020</b>	<b>34,377</b>	<b>1,370</b>	<b>322</b>	<b>547</b>	<b>4,868</b>	<b>41,484</b>
<b>As of 31 December 2020</b>	<b>55,582</b>	<b>1,618</b>	<b>320</b>	<b>865</b>	<b>8,260</b>	<b>66,645</b>
<b>As of 31 December 2021</b>	<b>54,238</b>	<b>1,124</b>	<b>240</b>	<b>580</b>	<b>8,227</b>	<b>64,409</b>

The fully depreciated/amortized property, plant and equipment still in use as of 31 December 2021 amount to BGN 1,906 thousand at cost (2020: BGN 1,004 thousand) and intangible assets amount to BGN 1,226 thousand (2020: BGN 743 thousand), respectively.

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**25. INVESTMENT PROPERTY**

	<b>2021</b>	<b>2020</b>
Carrying amount at the beginning of period	<b>7,608</b>	<b>7,484</b>
Improvements	14	-
Profit/(Loss) on change in the fair value included in profit and loss for the period	(433)	124
	<b>7,189</b>	<b>7,608</b>

The Group holds investment properties as a result of collateral acquired on problem loans. They are leased to third parties. Rental income generated for 2021 amounts to BGN 890 thousand (2020: BGN 671 thousand) (Note 10). The fair value as of 31 December 2021 has been determined by an independent certified appraiser.

The Group classifies its investment property in Level 3 of the fair value hierarchy. The fair value has been determined on the basis of the valuation calculated by independent certified appraisers by employing valuation techniques and key inputs for the valuation of the investment property disclosed in Note 5.

**26. ASSETS HELD FOR SALE**

Land, buildings and fixtures and fittings amounting to BGN 1,962 thousand (2020: BGN 608 thousand – land and buildings) were acquired by the Group in 2021 against payment of liabilities under problem loans of borrowers. The assets have not been used and it is not planned to be used in the Group's activity. The movement of assets held for sale in 2021 and 2020 is presented in the following table:

	<b>2021</b>	<b>2020</b>
<b>Carrying amount at the beginning of period</b>	<b>3,210</b>	<b>51</b>
Acquired from collateral foreclosure	1,962	608
Assets of Cohofarm OOD controlled by BDB	-	2,571
Reclassified to other assets	(608)	-
Impairment	(43)	(20)
<b>Carrying amount at the end of the period</b>	<b>4,521</b>	<b>3,210</b>

In 2020 due to non-performance of a loan agreement the Group acquired control over a company for fish goods production and as a result the company is in the consolidation scope. The company's assets are classified as held for sale according to IFRS 5 and its assets are presented in the Group's statement of financial position at fair value, respectively. The company's liabilities are recognized as Liabilities related to assets held for sale and are reported in Other liabilities (Note 34). The total amount of reclassified assets is BGN 3,599 thousand and their fair value is BGN 2,571 thousand. In 2021 the Group acquired the main assets of the company participating in a public sale. Exposures of BDB to Cohofarm at the total amount of BGN 2,571 thousand were settled with the proceeds.

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**27. OTHER ASSETS AND ASSETS ACQUIRED FROM COLLATERAL FORECLOSURE**

	<b>2021</b>	<b>2020</b>
Assets acquired from collateral foreclosure	34,719	33,938
Prepayments and advances	2,297	18,848
Receivables	2,200	1,470
Income tax overpaid	59	1,116
Assets in process of delivery	1,983	873
VAT refundable	70	138
Other	616	118
	<b><u>41,944</u></b>	<b><u>56,501</u></b>

Assets acquired from collateral foreclosure include assets acquired by the Group as a result of non-performing loans. These assets are measured at the lower of cost and net realisable value. The net realisable value is determined based on evaluations made by licensed independent valuers; management considers these evaluations reasonable and adequate for the Group.

As of 31 December 2020, BDB has transferred EUR 7,014 thousand (BGN 13,717 thousand) to cover the portion of its participation in the Three Seas Investment Fund, which at this stage according to the agreement of the shareholders in the Fund, was due. As the certificate for purchase of shares was received after the date of the financial statements, as of 31 December 2020 the amount is recorded as "Prepayments and advances", whereas the commitment for contribution in equity, which is not yet due is reported in Note 37 Contingencies and Commitments as of 31 December 2021.

Prepayments and advances also include the unamortised portion of the fee for the anti-COVID guarantees (see Note 37), amounting to BGN 1,074 thousand. The movement in Assets acquired from collateral foreclosure in 2021 and 2020 is presented in the following table:

	<b>2021</b>	<b>2020</b>
Carrying amount at the beginning of period	<b>33,938</b>	<b>35,187</b>
Reclassified to receivables from non-financial institutions	-	(906)
Reclassified from held for sale	608	-
Capitalised costs	632	2,938
Impairment	(52)	-
<b>Carrying amount at the end of the period</b>	<b>(407)</b>	<b>(3,281)</b>
Carrying amount at the beginning of period	<b><u>34,719</u></b>	<b><u>33,938</u></b>

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**28. DEPOSITS FROM CREDIT INSTITUTIONS**

	<b>2021</b>	<b>2020</b>
Deposits from local banks	1,057	7,508
Deposits from foreign banks	685	668
	<b>1,742</b>	<b>8,176</b>

There is no interest payable on deposits from credit institutions as of 31 December 2021 and 2020. All deposits from credit institutions are demand deposits.

**29. DEPOSITS FROM CUSTOMERS OTHER THAN CREDIT INSTITUTIONS**

	<b>2021</b>	<b>2020</b>
Companies and sole traders	730,288	973,064
Individuals	7,742	7,427
	<b>738,030</b>	<b>980,491</b>

The amounts due to individuals represent deposits of employees of the Group.

Interest payable on deposits from other customers, other than credit institutions, at 31 December 2021 amounts to BGN 96 thousand (2020: BGN 27 thousand).

	<b>2021</b>	<b>2020</b>
Term deposits	28,990	315,777
Demand deposits	709,040	664,714
	<b>738,030</b>	<b>980,491</b>

**30A. FINANCING ACTIVITY**

Financing activity forms the following cash flows and non-cash changes in 2021 and 2020.

	<b>01.01.2021</b>	<b>Cash flow</b>	<b>Non-cash changes</b>	<b>31.12.2021</b>
			<b>Changes in accrued interests and prepaid commissions</b>	<b>Transition from long- term to short-term</b>
Long-term loans (Notes 30 and 31)	1,194,306	-	194	(183,976)
Short-term loans (Notes 30 and 31)	129,613	(130,931)	(206)	184,435
Lease liabilities	279	66		-
<b>Total liabilities from financing activity</b>	<b>1,324,198</b>	<b>(130,865)</b>	<b>(12)</b>	<b>459</b>
				<b>1,193,780</b>

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**30A. FINANCING ACTIVITY (CONTINUED)**

	<b>01.01.2020</b>		<b>Non-cash changes</b>		<b>31.12.2020</b>
		<b>Cash flow</b>	<b>Changes in accrued interests and prepaid commissions</b>	<b>Transition from long- term to short-term</b>	
Long-term loans (Notes 30 and 31)	1,200,519	123,051	349	(129,613)	1,194,306
Short-term loans (Notes 30 and 31)	120,737	(120,388)	(349)	129,613	129,613
Lease liabilities	448	(105)	(64)	-	279
<b>Total liabilities from financing activity</b>	<b>1,321,704</b>	<b>2,558</b>	<b>(64)</b>	<b>-</b>	<b>1,324,198</b>

**30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS**

	<b>2021</b>	<b>2020</b>
China Development Bank	720,813	732,061
Industrial and Commercial Bank of China /EUROPE/	132,041	146,637
Long-term framework loan agreement with the Council of Europe Development Bank	82,159	144,750
The Export – Import Bank of China	98,395	98,355
Long-term loans from the Kreditanstalt für Wiederaufbau	35,678	71,356
Long-term loans from the European Investment Bank	40,901	42,946
Long-term loans from the Nordic Investment bank	753	2,799
	<b>1,110,740</b>	<b>1,238,904</b>

To fulfil its mission BDB attracts funds from various sources and the focus is on attracting borrowings from international institutions – borrowers (ILA's). The effective interest rates on borrowings from international institutions as of 31 December 2021 range from 0% to 1.70% (31.12.2020: from 0% to 1.70%).

Accrued interest payables on borrowings from international institutions as of 31.12.2021 amount to BGN 1,469 thousand (2020: BGN 1,150 thousand).

As of 31.12.2021 the main sources of financing of Bulgarian Development Bank EAD are presented below as follows:

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**30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (CONTINUED)**

***Council of Europe Development Bank***

On 30 March 2011, a new loan agreement was signed between Bulgarian Development Bank EAD and the Council of Europe Development Bank for EUR 20,000 thousand. The purpose of the loan is to improve the access to financing of the Bulgarian small and medium-sized enterprises, to create new jobs, and to preserve already existing ones. The loan is unsecured.

As of 31 December 2021, the loan is fully utilised and the outstanding principal under the loan amounts to EUR 3,000 thousand equivalent to BGN 5,867 thousand (31.12.2020: EUR 5,000 thousand equivalent to BGN 9,779 thousand). The interest rate on the first tranche is floating, based on the 3M EURIBOR plus margin, and the interest rate on the second tranche is fixed.

On 23 February 2016, Bulgarian Development Bank EAD signed a Loan agreement with the Council of Europe Development Bank (CEDB) amounting to EUR 150,000 thousand. The funds are intended to finance energy efficiency and retrofitting measures under Energy Efficiency of Multi-Family Residential Buildings National Programme (EEMFRBNP). The loan has a special purpose and will be used for renovation of multi-family buildings. As of 31 December 2021, the loan was fully utilised.

The loan is secured by a State guarantee under the State Budget of the Republic of Bulgaria Act for 2016. A Guarantee Agreement was signed between the CEDB and the Republic of Bulgaria, represented by the Minister of Finance, which was ratified by the National Assembly. The Guarantee Agreement Ratification Act was promulgated in State Gazette on 3 May 2016.

As of 31 December 2021, the loan payable amounts to EUR 39,000 thousand equivalent to BGN 76,277 thousand (as of 31.12.2020: EUR 69,000 thousand equivalent to BGN 134,952 thousand). The interest rate on the first tranche of the loan is floating, based on 3M EURIBOR plus a margin, and on the second tranche it is fixed.

***Kreditanstalt für Wiederaufbau (KfW)***

On 16 August 2016, Bulgarian Development Bank EAD signed an Agreement with KfW for EUR 100,000 thousand. The funds are intended to finance energy efficiency and retrofitting measures, implemented by SMEs in Bulgaria under the Energy Efficiency of Multi-Family Residential Buildings National Programme. The loan is secured by a State guarantee under the State Budget of the Republic of Bulgaria Act for 2016. A Guarantee Agreement was signed between KfW and the Republic of Bulgaria, represented by the Minister of Finance, which was ratified by the National Assembly. The Guarantee Agreement Ratification Act was promulgated in State Gazette on 30 December 2016. As of 31 December 2021, the loan was fully utilised.

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**30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (CONTINUED)**

***Kreditanstalt für Wiederaufbau (KfW)(continued)***

As of 31 December 2021, the outstanding principal under the facility amounted EUR 18,182 thousand equivalent to BGN 35,561 thousand (as of 31.12.2020 the outstanding principal amounted to EUR 36,364 thousand equivalent to BGN 71,121 thousand). The interest rate is floating, based on the 6M EURIBOR plus margin.

***European Investment Bank***

On 18 November 2016, BDB signed a third contract with European Investment Bank for the amount of EUR 150,000 thousand for financing of projects of small and medium-sized enterprises. The funds are provided with the support of the EU and are backed by an EFSI (European Fund for Strategic Investment) guarantee, part of the Investment Plan for Europe – the Juncker Plan. The funds are intended to finance SMEs, including innovative projects, to support regions with high unemployment rates, as well as youth employment or start-up company projects. The loan can be allocated through partner banks, other financial intermediaries or directly. The loan is unsecured.

As of 31 December 2021, the outstanding principal under the loan amounted to EUR 20,910 thousand equivalent to BGN 40,896 thousand (as of 31.12.2020: EUR 21,955 thousand equivalent to BGN 42,941 thousand). The interest rate is floating, based on the 6M EURIBOR plus a margin.

***Nordic Investment Bank***

On 15 December 2010, a second credit line was signed between the Nordic Investment Bank and Bulgarian Development Bank EAD for EUR 20,000 thousand. The purpose of the loan is financing of renewable energy projects or environmental projects; projects involving the Nordic Investment Bank member states, as well as indirect financing through commercial partner banks. The loan is unsecured. As of 31 December 2020, the loan was fully utilised.

As of 31 December 2021, the outstanding principal under the facility amounted to EUR 385 thousand equivalent to BGN 753 thousand (31.12.2020: EUR 1,430 thousand equivalent to BGN 2,797 thousand). The interest rate is floating, based on the 6M EURIBOR plus a margin.

***China Development Bank***

On 12 May 2017, BDB signed a loan agreement with China Development Bank for the amount of EUR 80,000 thousand. The purpose of the loan is financing the general lending activity of BDB – investment and working capital loans. BDB could also use the funds to support strategic projects within the Belt & Road initiative. The loan is unsecured. As of 31 December 2021, the loan was fully utilised.

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**30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (CONTINUED)**

***China Development Bank (continued)***

As of 31 December 2021, the outstanding principal on the loan amounts to EUR 76,000 thousand equivalent to BGN 148,643 thousand (as of 31.12.2020: EUR 78,000 thousand equivalent to BGN 152,555 thousand). The interest rate is floating, based on the 6M EURIBOR plus a margin.

On 13 December 2018, BDB signed a new financing agreement with the China Development Bank amounting to EUR 300,000 thousand. The funds were granted as a first tranche under the framework agreement between the two banks signed in July 2018 for EUR 1.5 billion. The funds may be used to finance projects within the Belt & Road initiative and/or projects in support of SMEs, energy, communications, transport, agriculture in Bulgaria or for other purposes agreed by BDB and CDB. The loan is unsecured. As of 31 December 2021, the loan is fully utilised.

As of 31 December 2021, the outstanding principal on the loan amounts to EUR 292,500 thousand equivalent to BGN 572,080 thousand (as of 31.12.2020: EUR 296,250 thousand equivalent to BGN 579,415 thousand). The interest rate is floating, based on the 6M EURIBOR plus a margin.

***The Export – Import Bank of China***

On 28 September 2017, BDB signed an agreement with the Export – Import Bank of China for the amount of EUR 50,000 thousand. This was the first loan agreement between BDB and the Export – import Bank of China, following the financial cooperation agreement, signed in 2014 between the two institutions and setting their interest in joint financing of key projects or areas. The funds can be used to finance the overall lending activity of BBD, a short-term and mid-term trade financing, trans-border economic and commercial transactions between China and Bulgaria. The loan is unsecured. As of 31 December 2021, the loan is fully utilised.

As of the 31.12.2021 the outstanding principal on the loan amounts to EUR 50,000 thousand equivalent to BGN 97,792 thousand (31.12.2020: EUR 50,000 thousand equivalent to BGN 97,792 thousand). The interest rate is floating, based on the 6M EURIBOR plus a margin.

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**30. BORROWINGS FROM INTERNATIONAL INSTITUTIONS (CONTINUED)**

***Industrial and Commercial Bank of China (through its divisions in Austria and Poland)***

On 13 March 2020 BDB signed a new financial agreement with the Industrial and Commercial Bank of China (ICBC) amounting to EUR 75,000 thousand. The funds are intended for general lending activities of BDB, direct financing as well as on-lending through Bulgarian financial institutions in support of investment projects and providing working capital. The financing is jointly provided by ICBC Austria and ICBC Europe - Poland. The loan is unsecured. As of 31 December 2021, the loan is fully utilised.

As of 31 December 2021, the debt on the loan amounts to EUR 67,500 thousand equivalent to BGN 132,019 thousand (31.12.2020: EUR 75,000 thousand equivalent to BGN 146,687 thousand). The interest rate is floating, based on the 6M EURIBOR plus a margin.

**31. OTHER BORROWINGS**

	<b>2021</b>	<b>2020</b>
Loan financing from the Ministry of Finance with funds from KfW	11,236	11,237
KfW funds provided by the Ministry of Finance for trust management	5,510	5,695
Special-purpose deposits	65,496	68,077
Other	453	-
	<b><u>82,695</u></b>	<b><u>85,009</u></b>

There are no interest liabilities accrued on other borrowings as of 31 December 2021 (2020: BGN 0 thousand).

***Loan financing from the Ministry of Finance with funds from KfW***

On 18 April 2007, the Bank concluded a loan agreement with the Government of the Republic of Bulgaria, represented by the Minister of Finance. This agreement is based on the Treaty between Bulgaria and Germany for financial collaboration from 2001 and an Agreement between the Republic of Bulgaria and Kreditanstalt für Wiederaufbau (KfW). By virtue of this agreement, the amount of EUR 4,929 thousand (BGN 9,640 thousand) is granted to the Bank designated as Project Promoter for the purpose of financing micro, small and medium-sized enterprises. The term of the agreement is 10 years as from the date of transfer of the funds, while the latter along with the due interest shall be repaid bullet at the end of the period.

On 28 April 2017 BDB and the Ministry of Finance signed Annex 1 to extend the term of the contract by 10 more years.

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### **31. OTHER BORROWINGS (CONTINUED)**

#### ***Loan financing from the Ministry of Finance with funds from KfW (continued)***

As of 31 December 2021, the outstanding principal and the capitalised interest amounted to EUR 5,745 thousand equivalent to BGN 11,236 thousand (as of 31.12.2020: EUR 5,745 thousand equivalent to BGN 11,236 thousand). The loan interest is capitalised quarterly and is based on 3M EURIBOR plus a margin.

As of 31 December 2021, the Bank has extended under this contract loans to commercial banks amounting to EUR 5,745 thousand equivalent to BGN 11,236 thousand (31.12.2020: EUR 5,745 thousand equivalent to BGN 11,236 thousand).

#### ***KfW funds provided by the Ministry of Finance for trust management***

Since 2001 the Bank has been working on the concluded agreement with the Ministry of Finance (MF) for management of funds granted by Kreditanstalt fur Wiederaufbau (KfW) pursuant to an agreement between the Governments of Bulgaria and Germany. These funds are provided for financing of small and medium-sized enterprises. The Ministry of Finance bears the risk under the loans to partner-banks. The Bank selects the partner-banks and transfers the funds to those approved; gathers information and performs periodic reviews of the funds' utilisation, monitors the timely interest and principal payments to the special account of the Ministry of Finance.

As of 31 December 2021, the outstanding balance of the funds under trust management with the Bank amounts to EUR 2,817 thousand equivalent to BGN 5,510 thousand (31.12.2020: EUR 2,912 thousand equivalent to BGN 5,695 thousand).

The Bank receives a management fee and accrues interest on the Fund's special account on a quarterly basis.

#### ***Long-term agreement with the Executive Agency on Fisheries and Aquaculture***

On 7 December 2010, a financing agreement for provision of funds for the issuance of guarantees under the Operational programme for development of fisheries sector 2007-2013 (OPFSD) was signed between the National Guarantee Fund (NGF) and the Executive Agency on Fisheries and Aquaculture (NAFA, the Agency) of the Ministry of Agriculture and Food of the Republic of Bulgaria. The aim of the program is to provide easier access to financing by the sector, with lower interest rates, lower collateral requirements and lower own financing.

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### **31. OTHER BORROWINGS (CONTINUED)**

#### ***Long-term agreement with the Executive Agency on Fisheries and Aquaculture (continued)***

The guarantee program is fulfilled within the Measure 2.7 of the Rural Development (RDP) Programme. Following consultations, the EAFA and NGF EAD have chosen the financial engineering instrument, provided for under Commission Regulation (EC) No.498/2007 (OB, 10.05.2007, L 120) laying down detailed rules for the implementation of Council Regulation (EC) No.1198/2006, to be realised through a fund (accounts) in an account and under the governance of NGF.

In accordance with Commission Regulation (EC) No.498/2007 (Article 35), the financial engineering instrument is established in the form of a separate financial pool within NGF EAD.

In 2010, NAFA provided to NGF the amount of BGN 6,000 thousand under Article 1 of the Financing Agreement. On 28 December 2011 pursuant to Annex 2 an additional contribution of BGN 9,168 thousand was made. On 19 December 2012 Annex 4 of the Financing Agreement for provision of funds for the issuance of guarantees under the Operational programme for development of fisheries sector 2007-2013 was signed between NGF and NAFA. Pursuant to Annex 4, NAFA shall transfer to NGF additional contribution amounting to BGN 15,050 thousand for the realisation of the guarantee scheme. In accordance with Annex 5 signed between NGF EAD and NAFA on 16 January 2014, the Agency has withdrawn the last contribution of BGN 15,050 thousand. By Annex No. 7 dated 06 October 2015 between the parties, the Fund refunded to the Agency the amount of BGN 3,000 thousand from the additionally transferred financial resources.

By Annex 8 dated 03 November 2017, the parties expressed their intention to reuse the resources. NAFA assigned NGF EAD with the task to carry out guarantee activity in favour of micro-, small-, and medium-sized enterprises operating in the Fisheries sector in accordance with article 34, paragraph 4 of Regulation (EC) 498/2007.

By Annex 9 dated 19 June 2018, the parties agreed that the funds provided under the Financial Agreement would be reused by the National Guarantee Fund in activities aiming to facilitate the access to financing of Fisheries sector enterprises and enterprises approved to receive grant under the Maritime and Fisheries Programme 2014 -2020. The funds have been granted to finance guarantee activities for a ten-year term.

In 2015, aiming at achieving a better yield, the program funds were invested in a current account bearing a preference interest rate with Bulgarian Development Bank EAD. In 2016, the funds were deposited in a two-year deposit with the same bank. In 2017, the deposit agreement was annexed for three more years. At the end of 2020, a new three-year deposit agreement was signed between NGF EAD and BDB EAD.

The guarantee program is free of charge for businesses that benefit from it, while the cost for NGF EAD for its realisation are determined and paid under Article 35 of Commission Regulation (EC) No.498/2007.

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**31. OTHER BORROWINGS (CONTINUED)**

***Long-term agreement with the Executive Agency on Fisheries and Aquaculture (continued)***

As of 31 December 2021, within the OPRDP, NGF EAD has signed agreements with the following banks: Raiffeisenbank (Bulgaria) EAD, First Investment Bank AD, UBB EAD, UniCredit Bulbank AD, Central Cooperative Bank AD, DSK Bank EAD, TBI Bank EAD, International Asset Bank AD, Bulgarian American Credit Bank AD, Bulgarian Development Bank EAD and Municipal Bank AD.

The term for inclusion of new loans and bank guarantees (which are scheduled within the Program) matures on 31 December 2022.

***Long-term agreement with the Ministry of Agriculture and Food***

On 20 December 2011, the National Guarantee Fund EAD and the Ministry of Agriculture and Food (MAF) signed a financial agreement to provide funds for the implementation of guarantees on guarantee schemes under the Rural Development Programme 2007 – 2013 (RDP).

The Guarantee Scheme was established on the grounds of Articles 51 – 52 of Commission Regulation (EC) No. 1974/2006 dated 15 December 2006 laying down detailed rules for the implementation of Council Regulation (EC) No. 1698/2005 dated 20 September 2005 regarding the support for rural development under EAFRD to facilitate access to financing of beneficiaries and the realisation of the projects under RDP.

MAF provides funding to NGF in BGN amount equivalent to EUR 121,100 thousand (BGN 236,851 thousand), in order to enhance the access to financing, support competitiveness, accelerate the completion of investments, which will be co-finance with funds under the Rural Development Programme (2007-2013) and which are used by the Fund for the issuance of guarantees and counter-guarantees. By Annex No. 2 dated 14 October 2015 signed between the parties, the Fund refunded to the Ministry the amount of BGN 154,586 thousand from the financial resources provided. By Annex No. 3 dated 01 December 2015, signed between the parties, the term of the Agreement was extended until 1 April 2016.

Pursuant to Annex No. 4 dated 29 March 2016 the parties declared that the funds provided under the Financial Agreement should be re-used by the Fund for guarantee activity with the aim to facilitate access to financing for entities approved for aid under the Rural DEVELOPMENT Programme of the Republic of Bulgaria (2014-2020), as also for entities from Livestock breeding sector and Plant production sector. The funds are provided for carrying out Guarantee activity for a term of ten years.

The Fund reimbursed to the Ministry BGN 21,881 thousand of the funds provided under Annex from 3 September 2020 signed between the parties.

In 2016 the funds were placed in a two-year deposit with the Bulgarian Development Bank EAD. In 2017, the deposit agreement was annexed for three more years. At the end of 2020, a new three-year deposit agreement was signed between NGF EAD and BDB EAD.

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### **31. OTHER BORROWINGS (CONTINUED)**

#### ***Long-term agreement with the Ministry of Agriculture and Food (continued)***

As of 31 December 2017, within the Guarantee Scheme under OPRDP 2007 - 2013, NGF EAD has concluded agreements with the following banks: Bulgarian American Credit Bank AD, DSK Bank EAD, United Bulgarian Bank AD, Piraeus Bank Bulgaria AD, First Investment Bank AD, Raiffeisenbank (Bulgaria) EAD, Eibank EAD, Central Cooperative Bank AD and Eurobank Bulgaria AD, UniCredit Bulbank AD, TBI Bank EAD, and Allianz Bank Bulgaria AD.

In 2017, the Guarantee Scheme 2014 -2020, a joint activity with MAF, was implemented by using funds amounting to BGN 50,000 thousand, released from the Guarantee Scheme under OPRDP 2007 - 2013. New agreements under the Guarantee Scheme was signed with 17 commercial banks: United Bulgarian Bank AD, Texim Bank AD, DSK Bank EAD, Piraeus Bank Bulgaria AD, Bulgarian American Credit Bank AD, Municipal Bank AD, Investment Bank AD, Allianz Bank Bulgaria AD, International Asset Bank AD, Eurobank Bulgaria AD, D Commercial Bank AD, TBI Bank EAD, First Investment Bank AD, UniCredit Bulbank AD, Bulgarian Development Bank EAD, Raiffeisenbank (Bulgaria) EAD, and BDB Microfinancing EAD.

### **32. PROVISIONS**

	<b>2021</b>	<b>2020</b>
Provisions for anti-COVID credit guarantees	176,370	120,308
Provisions for bank guarantees and letters of credit	5,615	7,060
<b>Total provisions for guarantees</b>	<b>181,985</b>	<b>127,368</b>
Litigation provisions	-	43
Provisions for unutilized loans and expenses	65	37
<b>182,050</b>	<b>127,448</b>	

The following table presents the movement in provisions for guarantees:

	<b>2021</b>	<b>2019</b>
<b>Balance as of 1 January</b>	<b>127,368</b>	<b>8,098</b>
Accrued provisions for anti-COVID credit guarantees	62,745	120,308
Accrued provisions for bank guarantees and letters of credit	3,991	5,212
Utilised during the year	56	358
Reintegrated during the year	(12,175)	(6,608)
<b>Balance as of 31 December</b>	<b>181,985</b>	<b>127,368</b>

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### 32. PROVISIONS (CONTINUED)

**Provisions for anti-COVID credit guarantees** represent the expected payments on the guarantees issued by BDB to commercial partner banks under the programme. They are calculated according to a methodology designed in BDB especially for this purpose. The programme is described in Note 37.

**Provisions for bank guarantees** represent amounts expected to be paid under guarantees issued by the Group. They are determined using established methodology for ECL calculation in accordance with IFRS 9.

**Litigation provisions** relate to future payments under lawsuits relating to labour disputes.

**Provisions for unutilized loans** are provisions on irrevocable commitments of the Group for the utilisation of funding.

**Provisions for expenses** represent probable but uncertain payments that may arise for the Group.

### 33. LEASE LIABILITIES

	<b>2021</b>	<b>2020</b>
Finance lease	168	169
Operating lease	177	110
	<b>345</b>	<b>279</b>

### 34. OTHER LIABILITIES

	<b>2021</b>	<b>2020</b>
Accruals for expenses	1,059	1,769
Payables to suppliers and customers	338	1,729
Liabilities related to assets held for sale	2,182	1,049
Payables to personnel and for social security	1,099	984
Retirement benefit liabilities	754	671
Tax liabilities	361	538
Charges on debenture loans and portfolio guarantees	168	167
Other creditors	1,652	850
	<b>7,613</b>	<b>7,757</b>

**Accruals for expenses** represent amounts related to the reporting period that have been or will be invoiced after finalizing the reporting process.

**Payables to suppliers and customers** represent mainly payables under deliveries of assets that will be leased as well as payables under other Group's operating deliveries.

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**34. OTHER LIABILITIES (CONTINUED)**

**Liabilities related to assets held for sale** represent the net amount of the liabilities Cohofarm OOD controlled by BDB after elimination of the company's liabilities to BDB.

**Payables to personnel** for salaries and social security contributions comprise accruals on compensated absences and social security contributions due thereon as well as current salaries due.

**Tax liabilities** represent VAT payables, taxes on employee benefits, corporate tax and withholding tax liabilities.

**Charges on debenture loans and portfolio guarantees** represent prepaid fees for guarantees.

**Employee retirement benefits** are due by the Bank to employees reaching retirement age and are stated at their present value.

In accordance with the Labour Code each employee is entitled to indemnity on retirement amounting to two gross monthly salaries, and if he / she has worked for more than 10 years for the parent company – to six gross monthly salaries at the time of retirement. The parent company estimated the amount of these liabilities by using mathematical models and the services of a certified actuary.

On the basis of the calculations made, the amount of BGN 754 thousand was included in the consolidated statement of financial position as of 31 December 2021 (31 December 2020: BGN 671 thousand).

	2021		2020			
<b>Present value of the liability as of 1 January</b>	<b>671</b>		<b>552</b>			
Current service cost		112		148		
Interest expense		4		4		
Amounts paid during the period		(20)		(13)		
Actuarial (gains)/losses from changes in demographic and financial assumptions and actual experience		(13)		(20)		
<b>Present value of the liability as of 31 December</b>	<b>754</b>		<b>671</b>			
	Amounts upon retirement by age and length of service		Amounts upon disability retirement		Total	
	2021	2020	2021	2020	2021	2020
Actuarial gain/(loss) as of 1 January	(42)	(56)	-	-	(42)	(56)
Actuarial (loss) / gain on the liability recognised as other comprehensive income for the period	11	14	-	-	11	14
<b>Actuarial gain/(loss) as of 1 December</b>	<b>(31)</b>	<b>(42)</b>	<b>-</b>	<b>-</b>	<b>(31)</b>	<b>(42)</b>

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**34. OTHER LIABILITIES (CONTINUED)**

***Employee retirement benefits (continued)***

The following actuarial assumptions are used in calculating the present value of the liabilities as of 31 December 2021:

- mortality rate – in accordance with the table prepared on the basis of statistics issued by the National Statistical Institute for the total mortality rate of the population in Bulgaria for the period 2018 – 2020;
- staff turnover rate – from 1% to 10% depending on five age groups formed;
- rate of early retirement due to illness – from 0.027% to 0.3212% depending on five age groups formed;
- effective annual interest rate for discounting – 0.6% (2020 – 0.5%);
- assumptions for the future growth of the Bank's salaries are in accordance with the Bank's development plan: for 2022 - 2% compared to the level in 2021 and for 2023 and the following years - 2% compared to the level of the previous year.

The effect for 2021 of a 1% increase and decrease in wage growth and interest rates on the total amount of current service and interest expenses and on the present value of the defined benefit obligation, are as follows:

	<b>1% increase in wage growth</b>	<b>1% decrease in wage growth</b>
Change in interest expense and current service ("+" - increase, "-" - decrease)	19	(16)
Change in the present value of the liability as of 31 December 2021 ("+" - increase, "-" - decrease)	80	(70)
	<b>1% increase in interest rates</b>	<b>1% decrease in interest rates</b>
Change in interest expense and current service ("+" - increase, "-" - decrease)	(8)	10
Change in the present value of the liability as of 31 December 2021 ("+" - increase, "-" - decrease)	(70)	82
	<b>1% increase in turnover</b>	<b>1% decrease in turnover</b>
Change in interest expense and current service ("+" - increase, "-" - decrease)	(17)	20
Change in the present value of the liability as of 31 December 2021 ("+" - increase, "-" - decrease)	(74)	86

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### 34. OTHER LIABILITIES (CONTINUED)

#### ***Employee retirement benefits (continued)***

The effect for 2020 of a 1% increase and decrease in wage growth and interest rates on the total amount of current service and interest expenses and on the present value of the defined benefit obligation, are as follows:

	<b>1% increase in wage growth</b>	<b>1% decrease in wage growth</b>
Change in interest expense and current service ("+" - increase, "-" - decrease)	18	(15)
Change in the present value of the liability as of 31 December 2020 ("+" - increase, "-" - decrease)	74	(68)
	<b>1% increase in interest rates</b>	<b>1% decrease in interest rates</b>
Change in interest expense and current service ("+" - increase, "-" - decrease)	(8)	10
Change in the present value of the liability as of 31 December 2020 ("+" - increase, "-" - decrease)	(64)	76
	<b>1% increase in turnover</b>	<b>1% decrease in turnover</b>
Change in interest expense and current service ("+" - increase, "-" - decrease)	(16)	19
Change in the present value of the liability as of 31 December 2020 ("+" - increase, "-" - decrease)	(68)	80

### 35. SHARE CAPITAL

	<b>2021</b>	<b>2020</b>
Ordinary shares issued, paid in cash	1,427,964	1,427,964
Ordinary shares issued – in-kind contribution (land for a Bank's building)	12,200	12,200
Ordinary shares issued - in-kind contribution (building of the Bank)	1,610	1,610
	<b>1,441,774</b>	<b>1,441,774</b>

The capital of the parent company (the Bank) consists of 14,417,735 ordinary registered voting shares with par value of BGN 100 each.

The Bulgarian Development Bank Act provides that not less than 51 per cent of shares forming the Bank's capital should be owned by the State; the shares of the State amounting to not less than 51 per cent of the registered share capital are non-transferable. Also, a specific limit is established with regard to the remaining shareholders, other than the Bulgarian State through the Ministry of Finance. Shareholders may be: the Council of Europe Development Bank, the European Investment Bank, the European Investment Fund as well as other banks for development in EU member states.

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**35. SHARE CAPITAL (CONTINUED)**

	<b>2021</b>	<b>2020</b>
As of 1 January	1,441,774	601,774
Issued shares	-	840,000
<b>As of 31 December</b>	<b><u>1,441,774</u></b>	<b><u>1,441,774</u></b>

The Bank's shares may not be pledged and the rights thereon may not be subject to transfer transactions.

In 2020, by Decision №215 of 27 March 2020 the Council of Ministers took a decision to increase the capital of BDB by BGN 700 million and the funds should be used "for the implementation of measures to support the economy in connection with the epidemic of COVID-19, incl. to issue portfolio guarantees to banks to enable them to provide more flexible terms for business loans for a certain period, under certain conditions and on an individual assessment on a case-by-case basis".

By Decree of the Council of Ministers № 134 of 18 June 2020 changes to the budget of the Ministry of Economy were approved for 2020 and making additional payments regarding the portion of financing of the budget balance at the expense of the central budget, by Decision № 402 of 18 June 2020 the Council of Ministers the Bulgarian State decided to increase its participation in the share capital of Bulgarian Development Bank EAD by making a monetary contribution at the total amount of BGN 140,000,000. For the implementation of these measures an extraordinary General Meeting of the Shareholders of the Bank was held on 6 July 2020 at which a decision was adopted to increase the capital of the Bank by issuing 1,400,000 new registered dematerialized voting shares with a par value of BGN 100 each at the total amount of BGN 140,000,000.

Thus, the capital of the Bulgarian Development Bank EAD was increased from BGN 1,301,773,500 to BGN 1,441,773,500.

On 13 May 2021, the Council of Ministers adopted Decision No 414 to increase the state's shareholding in the capital of "BDB." By this decision the increase in the shareholding of the State in the capital of "Bulgarian Development Bank" EAD by acquiring by donation all shares held by DSK Bank EAD in the capital of "Bulgarian Development Bank" EAD, namely 8 dematerialized shares, each with a nominal value of BGN 100, a total of BGN 800, representing 0.000055 per cent of the capital of "Bulgarian Development Bank" EAD was approved.

On 14 May 2021, a contract was concluded for the donation of 8 dematerialized shares between DSK Bank and the Republic of Bulgaria. The transfer of ownership of the shares is registered with the Central Depository of the Republic of Bulgaria.

On 4 June 2021, the Bulgarian Development Bank was registered in the Commercial Register and the register of non-profit legal entities as a sole – owned commercial company.

On 18 March 2022 by Decision of the Council of Ministers the shares of the Bank were transferred from the Ministry of Economy to the Ministry of innovation and Growth.

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**36. RESERVES**

In accordance with the general provisions of the Commercial Act, the parent company (the Bank) shall allocate to Reserve Fund at least 1/10 of its profit for the year until the reserves reach 10 percent of the share capital as stipulated in the Articles of Association. Pursuant to the Articles of Association of the Bank, the Bank shall set aside to the Reserve Fund at least 1/2 of its after-tax annual profit until the reserves reach 50 percent of its share capital.

The Reserve Fund may be used by the Group only to cover its current or prior period losses, and not for distribution of dividends, without the authorisation of Bulgarian National Bank.

Moreover, the Credit Institutions Act stipulates that the banks in Bulgaria cannot distribute dividends before accumulating the minimum reserves (mainly the Reserve Fund) required by law or by their Articles of Association, or if the distribution of dividends will result in violation of the regulatory capital adequacy ratios. The requirement under the Bulgarian Development Bank Act is similar.

As of 31 December 2021, the Reserve Fund of the Group amounts to BGN 87,185 thousand. (31 December 2020: BGN 87,185 thousand).

As of 31 December 2021, the Additional Reserves of the Group amount to BGN 83,521 thousand (31 December 2020: BGN 82,442 thousand) and were formed as result of distribution of profits of the Group from prior periods, according to decisions of the General Meeting of Shareholders.

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### 36. RESERVES (CONTINUED)

In accordance with the Bulgarian Development Bank Act, each shareholder of the Bank is allowed to waive the right to a dividend and then the dividend amount is transferred to Additional Reserves.

All unrealised gains and losses on fair value revaluation of the financial assets measured at fair value through other comprehensive income held at the end of each reporting period are recognised in equity, in a special component thereof formed by the Group and titled Reserve for financial assets measured at fair value through other comprehensive income. These gains and losses are transferred to current profits and losses upon sale/maturity of the respective securities and/or on permanent impairment.

	<b>2021</b>	<b>2020</b>
<b>Revaluation reserve as of 01.01</b>	<b>(63,958)</b>	<b>16,694</b>
Impairment	(3,350)	1,118
Revaluation	(12,055)	(90,781)
Tax	892	9,011
<b>Revaluation reserve as of 31.12</b>	<b>(78,471)</b>	<b>(63,958)</b>

### 37. CONTINGENCIES AND COMMITMENTS

	<b>2021</b>	<b>2020</b>
<b>Contingent liabilities</b>		
Anti-COVID credit guarantees	680,938	479,462
Bank guarantees and letters of credit	377,159	432,369
Bank guarantees and letters of credit with cash collateral	(10,688)	(15,102)
Letters of credit, incl. with borrowings - Reported as loan commitment	187	1,719
Guarantee provisions recognized in the statement of financial position (Note 32)	(181,985)	(127,368)
<i>Incl. Anti-COVID credit guarantees provisions</i>	<i>(176,370)</i>	<i>(120,308)</i>
	<b>865,611</b>	<b>771,080</b>
<b>Irrevocable commitments</b>		
Unutilised amount of approved loans	209,829	264,318
Letters of credit with borrowings	-	(156)
Provisions for expenses	(52)	(80)
Unpaid portion of shares in Three Seas Initiative	25,031	25,399
Unclaimed portion of par value of EIF shares	4,694	4,694
Participation in the SIA investment program	861	1,006
	<b>240,363</b>	<b>295,181</b>
	<b>1,105,974</b>	<b>1,066,261</b>

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## **37. CONTINGENCIES AND COMMITMENTS (CONTINUED)**

### **BULGARIAN DEVELOPMENT BANK EAD**

#### ***Anti-COVID guarantees***

In its role as national development bank BDB received mandates from the government for the implementation of financial instruments in support of Bulgarian citizens and businesses affected by the COVID-19 pandemic. They were secured with an increase in the Bank's capital of BGN 700 million (see Note 35) and included the following measures:

#### **Measures for individuals and households**

By Decision No 257 of 14 April 2020, the Council of Ministers approved the Interest-free loan guarantee program to protect people deprived of the opportunity to work due to the COVID-19 pandemic, with a budget of BGN 200 million, proposed by the BDB. The program will be secured with the increase of the Bank's capital according to Decision No 215 of the Council of Ministers from 2020.

The Interest-free loan guarantee program aims to support individuals on unpaid leave and self-insured who are temporarily unable to work in an emergency state.

The program parameters were further amended in order to increase the benefits for individuals affected by the pandemic by Decision 910/10.12.2020 of the Council of Ministers. They have the opportunity to receive interest-free loans of up to BGN 6,900, which are granted at once or in instalments. The maximum repayment period is 5 years, with a minimum of 6 months and a maximum of 24 months grace period. No fees, commissions or charges are payable on the loans. Term for application was extended until 30 August 2021, or until the guarantee limits are exhausted. These changes became effective in January 2021.

According to Decision of the Council of Ministers No 194 /05.03.2021, "Bulgarian Development Bank" AD was granted the right to increase by up to BGN 100 million the amount of the guarantee programme for interest-free loans to individuals on unpaid leave and self-insured (the "Interest-free Loan Guarantee Program to protect people deprived of the opportunity to work due to the COVID-19 pandemic") at the expense of the budget of the Portfolio Guarantees Programme to support the liquidity of enterprises affected by the state of emergency and the Covid-19 pandemic. Thus, the possibilities for making guarantee commitments under the Guarantee Programme for interest-free loans for individuals on unpaid leave and self-insured was increased to BGN 300 million.

By Decision of the Council of Ministers No 506/15.07.2021, the deadline for applying under the Interest-free Loan Guarantee Program to protect people deprived of the opportunity to work due to the COVID-19 pandemic is extended until 31 August 2021 or until the guarantee limits of the commercial partner banks under the Programme are exhausted.

As of 31 December 2021, the total approved limit under the programme is BGN 290,543 thousand, portfolio guarantees amounting to BGN 283,438 thousand were issued to commercial banks and 52,925 loans to individuals were approved in the total amount of BGN 236,109 thousand.

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### **37. CONTINGENCIES AND COMMITMENTS (CONTINUED)**

#### ***Anti-COVID guarantees (continued)***

##### ***Measures for individuals and households (continued)***

As of 31 December 2020, the total approved limit under the programme is BGN 179,860 thousand, portfolio guarantees amounting to BGN 177,162 thousand were issued to commercial banks and 25,448 loans to individuals were approved in the total amount of BGN 106,425 thousand.

##### ***Measures for micro, small and medium-sized enterprises***

By Decision No 310 of 7 May 2020, the Council of Ministers approved the Portfolio Guarantee Programme to support the liquidity of enterprises affected by the emergency state and the COVID-19 epidemic proposed by BDB, with a budget of BGN 500 million. The program will be secured with the increase of the Bank's capital according to Decision No 215 of the Council of Ministers from 2020.

The guarantee program, which is part of the government's anti-crisis measures, has a budget of up to BGN 500 million. It can include enterprises from all sectors, and the measure is expected to benefit mainly companies from the most affected areas – trade, services, transport and logistics, tourism, hospitality and restaurant business, etc.

In order to apply for loans, it is sufficient for the companies to meet one of the following conditions:

- To be micro, small and medium-sized enterprises, as determined in the manner specified in the Law on small and medium-sized enterprises or large enterprises-commercial companies, whose indicators for personnel and assets and/or turnover exceed the indicators specified in the Law on small and medium-sized enterprises;
- That the enterprises were not in a difficult situation as of 31.12.2019, which is established by checking pre-set, normative criteria. Recent changes to the programme introduce a relief from the "Temporary Framework for State Aid" for micro and small enterprises. It is sufficient for them not to have been the subject of insolvency proceedings, under national law and have not received rescue or restructuring aid (meaning rescue or restructuring aid). In addition, if the BDB guarantee includes existing loans, they must not have been non-performing, and the borrower must not be overdue for more than 90 days - in 2019. For existing loans, the borrower must have submitted to the commercial bank -partner forecast estimates and forecast plan for resumption of its activities, which does not require a strictly defined form and details.

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### **37. CONTINGENCIES AND COMMITMENTS (CONTINUED)**

#### ***Anti-COVID guarantees (continued)***

##### ***Measures for micro, small and medium-sized enterprises (continued)***

Funding and guarantee can be used by companies that have encountered difficulties or have fallen into difficulty after 31.12.2019 due to the outbreak of the COVID-19 epidemic. The difficulty is identified by the borrower himself, and it is sufficient to describe one of the following reasons that led to his difficulties:

- Decrease in turnover after the first quarter of 2020 compared to the same period in 2019 (based on financial statements or documents of the Company);
- Existence of receivables from customers, that have not been received/amounts not paid to suppliers after 01.03.2020 (based on financial statements and documentation of the Company);
- Terminated import deliveries necessary for the activities of the enterprise – after 01.01.2020, cancelled export contracts (based on documents submitted by the Company);
- Cases of illness and self-isolation of employees, total reduction of the number of employees, closed production facilities, premises and offices (based on documents submitted by the company);
- Existence of other circumstances, establishing the difficulties experienced by enterprises due to COVID-19, according to methodology adopted by the commercial banks, which is provided to BDB.

Because the funding covered by the guarantee under the programme is state aid:

- Borrowers are prohibited from financing one and the same expenditure with a loan under the programme and other state/minimum aid. (The same expense means, for example, payment on a specific invoice from 30.11.2020 or payment of rent for a specific office for the month of December 2020, or payment of salaries of specific employees for a specific month.) If the client uses for these specific expenses state/minimum (de minimis) aid, the client cannot use the loan to cover the same costs (prohibition of double financing).
- The borrower must not have infringed the State aid rules and be entered in the specially created "Degendorf Register";
- If the borrower or a related person has benefited from/uses other state /minimum aid for the same type of expenses, as the expenses that he or she wants to be financed by the loan under the programme (e.g., total costs for salaries, total rental costs, total costs for maintenance of facilities), he or she is obliged to declare this to the commercial bank by a declaration according to a model of the programme and should not to allow double financing as mentioned above.

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### **37. CONTINGENCIES AND COMMITMENTS (CONTINUED)**

#### ***Anti-COVID guarantees (continued)***

##### ***Measures for micro, small and medium-sized enterprises (continued)***

New loans, as well as existing loans, may be included in the programme managed by the Bulgarian Development Bank, but provided that the company is experiencing difficulties in servicing the loans after 31.12.2019 and has no overdue payments over 90 days during the last year. The loans which the commercial banks will grant have a maximum amount of BGN 300,000 and the BDB will cover up to 80% of the loans.

The banks themselves will determine the minimum and maximum repayment period and the grace period for newly granted loans will be up to three years.

During the last quarter of 2020 the Programme was renewed by Decision of the Council of Ministers 979/2020, as follows:

- The loans granted now have an amount up to BGN 1 million for small and medium-sized enterprises and up to BGN 2 million for large enterprises;
- The term of inclusion of loans in the Guarantee portfolio has been extended until 31.12.2021;
- The deadline for application under the measure for micro, small and medium-sized enterprises is 30.06.2022.
- The percentage of collateral for the loans has changed from 20% to up 50%, according to the amount of financing;
- A reduction of at least 80 basis points on loan interest rates is required;
- The term of the guarantee provided by BDB has been extended from 5 to 6 years;
- The guarantee coverage will cover investment loans granted by the banks;
- The limit of the guarantee payments by the BDB AD has been extended from 30% to 50%.

The Portfolio Guarantees Programme to support the liquidity of enterprises affected by the state of emergency and the Covid-19 pandemic was updated by Decision of the Council of Ministers No 194/05.03.2021 and by Decision of the Council of Ministers No 578/05.08.2021. The programme is aiming to synchronize it with the upgrading mechanism for intervention developed in May 2021 by the Ministry of Economy and the Ministry of Finance, which provides liquid support to enterprises - "Portfolio guarantee to overcome the consequences of COVID-19".

As of 31 December 2021, the total approved limit under the programme is BGN 795,000 thousand, portfolio guarantees amounting to BGN 397,500 thousand were issued to commercial banks and 2,290 loans to individuals were approved in the total amount of BGN 413,555 thousand.

As of 31 December 2020, the total approved limit under the programme is BGN 743,000 thousand, portfolio guarantees amounting to BGN 302,300 thousand were issued to commercial banks and 1,282 loans to individuals were approved in the total amount of BGN 157,127 thousand.

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## **37. CONTINGENCIES AND COMMITMENTS (CONTINUED)**

### **SIA**

On 17 July 2015, Bulgarian Development Bank EAD signed a funds management contract with EIF for accession to the SIA (Social Impact Accelerator) investment program of EIF for investing in social venture funds, with the participation amounting to EUR 1 million over an engagement period of up to 5 years. In 2018, a Consent for extending the investment period of the SIA Fund by 1 year.

The goal of the SIA program is to invest in small and medium-sized enterprises having considerable social impact. EIF is the manager of the program.

As of 31 December 2021, eighteen equity contributions were made under the initiative amounting to EUR 560 thousand equivalent to BGN 1,095 thousand (2020: EUR 486 thousand equivalent to BGN 950 thousand) (Note 21).

### ***Guarantee programmes for small and medium-sized businesses***

In 2015, the Bank launched a new program for indirect financing of micro, small and medium-sized businesses subject to a maximum of BGN 150,000 thousand. Under the program BDB will be able to assume part of the risk – up to 30 per cent of the amount of the individual sub-loans - on loans granted by partner banks to businesses. As of 31 December 2021, the Bank has effective agreements with five partner banks and the so-formed portfolio of guarantees amounts to BGN 1,118 thousand (31 December 2020: five partner banks and portfolio of guarantees amounting to BGN 1,482 thousand).

### ***BDB's programme for indirect financing of SMEs with guarantee facility and counter-guarantee under the EIF COSME+ Programme, with the support of the European Fund for Strategic Investments (Cosme+ Programme)***

At the end of 2018 BDB EAD updated framework conditions of the on-landing product: BDB Programme for Indirect Financing of SMEs with Guarantee Facility and Counter-Guarantee under the COSME + Programme of the European Investment Fund, with the support of the European Fund for Strategic Investments with which, in addition to banks, non-bank financial institutions are allowed to participate in the Programme.

The purpose of the Program is to provide long-term targeted funding plus a guarantee for payment of up to 60% of principal and accrued contractual interest by the 90th day on each of the eligible subcontracts of the Programme, but not more than a certain "Payment Limit" (CAP), in amount of 12% of the guarantee from BDB EAD. The EIF provides a counter-guarantee covering up to 50% of BDB's commitment.

As of 31 December 2021, BDB has concluded contracts under the Programme with 8 financial institutions in the total amount of EUR 26,149 thousand, of which with two commercial banks and six non-banking financial institutions entered in the register of BNB.

As of 31 December 2021, the amount of the guarantees of BDB EAD is BGN 29,071 thousand (EUR 14,864 thousand), and the guaranteed amount is BGN 17,443 thousand (EUR 8,918 thousand).

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### **37. CONTINGENCIES AND COMMITMENTS (CONTINUED)**

#### ***Pan-European Guarantee Fund***

The Pan-European Guarantee Fund was established as part of the overall package of measures of the EU and the European Investment Bank Group to reduce the economic consequences of the COVID-19 pandemic. Its final beneficiaries are mainly small and medium-sized enterprises in the EU and public enterprises, providing important services such as healthcare, medical research and others. The total amount of financing is expected to be EUR 200 billion. The **Bulgarian Development Bank Group applied and was approved as financial intermediary under the guarantee programme** of the Pan-European Guarantee Fund, under which its new product was created. From the end of September 2021 through financial instruments of the Pan-European Guarantee Fund, BDB will present three new products on the Bulgarian market for small and medium-sized businesses, the sector of creative industries and start-ups in production. The programme, amounting to EUR 40 million in volume, is implemented with the Pan-European Guarantee Fund as partner and through it the BDB will be able to grant direct loans under easier loan terms.

As of 31 December 2021, the Bank has not granted loans nor issued guarantees under the programme.

#### **Bank guarantees and letters of credit**

Besides, the Bank issues bank guarantees and letters of credit to third parties for the performance of their activity.

### **NATIONAL GUARANTEE FUND**

#### **Guarantee scheme 2009-2013**

In 2020 there are active agreements for portfolio guarantees with 6 banks under the guarantee scheme 2009- 2013, to which the Fund is a party. The maximum term of guarantees is up to 10 years. The guarantee limit granted to banks for the period of implementation of the guarantee scheme amounts to BGN 146,500 thousand. The total amount of guarantees issued under the program is BGN 168,000 thousand and the guarantees on loans amount to BGN 391,000 thousand. Over 2,300 SMEs were supported.

As of 31 December 2021, the approved amount of the guarantees included in the partner-banks' portfolio amounts to BGN 1,269 thousand (2020: BGN 3,133 thousand), and the amount of the guaranteed debt is BGN 290 thousand (2020: BGN 1,311 thousand).

#### **Guarantee scheme 2015-2017**

In 2015 the procedure for selection of NGF partner banks under a new guarantee scheme was launched. After completion of the selection procedure and analysis of commercial banks, from early October 2015 to early January 2016 guarantee agreements were signed with 10 commercial banks at the total amount of BGN 326,000 thousand.

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**37. CONTINGENCIES AND COMMITMENTS (CONTINUED)**

**NATIONAL GUARANTEE FUND (CONTINUED)**

**Guarantee scheme 2015-2017 (continued)**

In 2016, the total guarantee limit was increased to BGN 379,000 thousand upon request of two of the banks which signed the agreement. Same as under the previous scheme, eligible for inclusion are only new loans for investment and working capital purposes. Under the scheme NGF guarantees up to 50% of the loan amount, but not more than BGN 1 million in case of related parties. The deadline for inclusion of loans in the guaranteed loan portfolio was March 31, 2017. The guarantee scheme was introduced a maximum limit on payments for each guaranteed portfolio in the amount of up to 25%, where the NGF reserves the right to exclude loans from the guaranteed portfolio in case of non-compliance with the scheme requirements. Banks pay a guarantee fee based on volumes achieved, whereas the borrowers are exempt from fees for the NGF guarantees. The number of supported SMEs from the beginning of the guarantee scheme until expiration of the registry period is 2,024, 57% of which are micro, 33% are small and 10% are medium-sized enterprises.

The total funds made available to banks to include loans in the portfolio amount to BGN 379,000 thousand (2020: BGN 379,000 thousand).

As of 31.12.2021, the approved amount of guarantees included in the portfolios of partner banks is BGN 0 thousand (2020: BGN 19,329 thousand), and the amount of the guaranteed debt is BGN 0 thousand (2020: BGN 9,662 thousand). In 2021, the scheme ended.

**Guarantee scheme 2017-2018**

In the beginning of 2017, NGF EAD initiated a procedure to extend the guarantee scheme NGF 2015-2017 for a new period. All banks applied to participate and signed new agreements for the amount of BGN 328,000 thousand. Same as under the previous scheme, eligible for inclusion are only new loans for investment and working capital purposes. Under the scheme NGF EAD guarantees up to 50% of the loan amount, but not more than BGN 1 million in case of related parties. The deadline for inclusion of loans in the guaranteed loan portfolio was 30 September 2018. The guarantee scheme was introduced a maximum limit on payments for each guaranteed portfolio in the amount of up to 25%, where the NGF EAD reserves the right to exclude loans from the guaranteed portfolio in case of non-compliance with the scheme requirements. Banks pay a guarantee fee based on volumes achieved, whereas the borrowers are exempt from fees for the NGF EAD guarantees.

After subsequent annexes, the total funds made available to banks to include loans in the portfolio amount to BGN 416,131 thousand.

As of 31 December 2021, the approved amount of guarantees included in the portfolios of partner banks amounts to BGN 157,131 thousand (2020: BGN 218,943 thousand) and the amount of the guaranteed debt is BGN 88,662 thousand (2020: BGN 152,808 thousand). 3,000 SMEs have been supported.

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**37. CONTINGENCIES AND COMMITMENTS (CONTINUED)**

**NATIONAL GUARANTEE FUND (CONTINUED)**

**Guarantee scheme 2019-2020 r.**

In early 2019, NGF EAD launched a procedure for selecting partner banks under the new guarantee scheme NGF 2019-2020. Only newly granted loans for investment and working capital purposes are eligible for inclusion. Under the scheme NGF EAD guarantees up to 50% of the loan amount, but not more than BGN 1.5 million for group of related parties. The term for inclusion of loans in the guaranteed portfolio is 30 September 2020. The guarantee is portfolio-based and amounts of BGN 500 thousand require prior written consent by NGF EAD. Under the new guarantee scheme a limit of payments of up to 25% was introduced for each guaranteed portfolio, where the NGF EAD retains the right to exclude loans from the guaranteed portfolio if they don't meet the requirements of the scheme. The banks will pay a guarantee fee based on volumes reached, and the borrowers are exempt from fees under the NGF EAD guarantees.

As of 31 December 2021, agreements were signed with 6 banks with a maximum guaranteed portfolio amount of BGN 244,000 thousand.

As of 31 December 2021, the approved amount of guarantees included in the portfolios of partner banks amounts to BGN 159,524 thousand (2020: BGN 103,825 thousand) and the amount of the guaranteed debt is BGN 140,289 thousand (2020: BGN 96,854 thousand). 1,341 SMEs have been supported.

**Guarantee scheme under COSME Programme of the European Commission**

In December 2016, an agreement was signed between the European Investment Fund (EIF) and the National Guarantee Fund EAD providing an additional EUR 40 million for funding small and medium-sized enterprises in Bulgaria under the COSME Programme of the European Commission. The funds are provided with the support of the European Fund for Strategic Investments (EFSI), which is the fundament of the Investment Plan for Europe (Juncker Plan). EIF provides a guarantee line of EUR 20 million, based on which NGF EAD will support funding of EUR 40 million to SMEs in Bulgaria struggling to secure the required collateral. Agreements for portfolio guarantees are concluded under this scheme with 5 commercial banks - Bulgarian-American Credit Bank AD, T.B.I. Bank EAD, BDB Microfinancing EAD, First Investment Bank AD, Eurobank Bulgaria AD. The maximum limit is BGN 43,338 thousand.

As of 31 December 2021, guarantees amounting to BGN 14,154 thousand (2020: BGN 37,653 thousand) are issued on 455 loans for a total amount of BGN 82,308 thousand (2020: BGN 75,306 thousand). The current guaranteed debt as of 31 December 2021 is BGN 23,323 thousand (2020: BGN 24,038 thousand). 416 enterprises have been supported.

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**37. CONTINGENCIES AND COMMITMENTS (CONTINUED)**

**NATIONAL GUARANTEE FUND (CONTINUED)**

**Guarantee program to support beneficiaries under Operational Programme Fisheries Sector Development 2007 – 2013 (OPFSD)**

Based on a financial agreement with EAFA from 2011, NGF EAD implements a guarantee scheme in the Fishing sector. The guarantees issued by NGF EAD under this program are risk-free for the Company as the claims are paid at the expense of the funds provided under OPFSD. NGF EAD has signed agreements with 16 commercial banks under this program. Under the scheme, projects amounting to BGN 46,000 thousand have been implemented, including BGN 33,000 thousand under measure 2.1 (79% of the measure's budget); under measure 2.6, the projects supported amount to BGN 12,000 thousand (77% of the measure's budget). The projects supported under measure 4.1 amount to BGN 500 thousand. 25 beneficiaries were supported.

As of 31 December 2021, at a maximum amount of guarantee coverage of 80%, NGF EAD has issued risk-free guarantees and counter-guarantees for loans issued to partner banks to finance approved projects under the Operational Programme Fisheries Sector Development 2007 – 2013 at the amount of BGN 20,780 thousand with a total amount of loans/bank guarantees – BGN 30,551 thousand (2020: guarantees - BGN 20,780 thousand) with a total amount of loans/bank guarantees – BGN 30,551 thousand).

The carrying amount of guaranteed debt as of 31 December 2021 is BGN 207 thousand (2020: BGN 448 thousand).

**Guarantee scheme to support beneficiaries under the Rural Development Programme 2007 – 2013 (RDP)**

Based on a financial agreement with the Ministry of Agriculture, Food and Forestry from 2012 NGF EAD implements a guarantee scheme to support beneficiaries of RDP 2007-2013. The guarantees issued by NGF EAD under this program are risk-free for the Company as the claims are paid at the expense of the funds provided under RDP. Under the scheme, 544 beneficiaries are supported under the project implementation program, where 84% of the entities are considered micro, 14% are small and 3% are medium enterprises.

As of 31 December 2021, at a maximum amount of guarantee coverage of 80%, NGF EAD has issued risk-free guarantees and counter-guarantees for loans issued to partner banks to finance approved projects under the Rural Development Programme in the Republic of Bulgaria 2007-2013 at the amount of BGN 185,606 thousand (2020: BGN 185,606 thousand) with a total amount of loans amounting to BGN 238,112 thousand (2020: BGN 238,112 thousand).

The carrying amount of guaranteed debt as of 31 December 2021 is BGN 2,282 thousand (2020: BGN 4,481 thousand).

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**37. CONTINGENCIES AND COMMITMENTS (CONTINUED)**

**NATIONAL GUARANTEE FUND (CONTINUED)**

**Guarantee scheme to support beneficiaries under the Rural Development Programme 2007 – 2013, 2014 – 2020 and enterprises from Crop and animal production Sector – Guarantee scheme – Ministry of Agriculture, Food and Forestry 2016-2018**

This scheme is a joint guarantee scheme with the Ministry of Agriculture, Food and Forestry and is realized with released funds under the RDP guarantee scheme 2007-2013 amounting to BGN 50 million to finance approved projects under the Rural Development Programme in the Republic of Bulgaria 2014 - 2020. The guarantees issued by NGF EAD under this program are risk-free for the Company as the claims are paid at the expense of the funds provided under RDP

As of 31 December 2021, at a maximum amount of guarantee coverage of 50%, NGF EAD has issued risk-free guarantees and counter-guarantees for loans issued to partner banks to finance approved projects under the Rural Development Programme in the Republic of Bulgaria 2014 - 2020 at the amount of BGN 106,957 thousand (2020: BGN 101,602 thousand) with a total amount of loans amounting to BGN 215,752 thousand (2020: BGN 204,972 thousand). 241 SMEs (2020: 214 SMEs). have been supported under the programme. The maximum guarantee limit under the program is BGN 50,000 thousand. As of 31 December 2021, the number of guarantee loans is 25 for a total amount of BGN 9,542 thousand (2020: BGN 105,985 thousand).

The carrying amount of guaranteed debt as of 31 December 2021 is BGN 4,772 thousand (2020: BGN 47,354 thousand).

**Nature of instruments and credit risk**

These commitments of contingent nature bear an off-balance sheet credit risk because only fees are recognised in the financial statements until the commitments are fulfilled or expire. The amounts reflected in the above table as guarantees represent the maximum accounting loss that would have been recognised at the end of the reporting period if counterparties failed to perform in full their contractual obligations. Many of the contingent liabilities and commitments will expire without being advanced fully or partially. Therefore, the amounts do not represent expected future cash flows. Collateral for issuance of common bank guarantees exceeds 100% and represents primarily restricted deposits at the Bank, mortgages of real estate and insurance policies issued in favour of the Bank. When conditions for enforcement of an issued guarantee occur, the Bank judges the possibilities for recourse to the counterparty and eventual realisation of the provided securities.

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**37. CONTINGENCIES AND COMMITMENTS (CONTINUED)**

**Nature of instruments and credit risk (continued)**

The guarantees of the parent company (the "Bank"), issued under the Micro-credits Guarantee Fund Project of MLSP, and the guarantees issued at own risk of NGF (subsidiary of BDB) are not secured. In case of activation of a component of a guarantee issued by the Group, the payment thereon is not assessed as ultimate loss because the partner-bank is obliged to undertake all necessary measures for realising the received collateral of the non-performing loan and to reimburse the respective amount to the Group.

The non-paid portion of the nominal value of EIF shares held by the Bank shall become due for payment after a special decision for this purpose taken by European Investment Fund's General Meeting of Shareholders. By the issue date of this financial statement no such a decision has been taken.

**38. CASH AND CASH EQUIVALENTS**

	<b>2021</b>	<b>2020</b>
Cash on hand (Note 16)	849	601
Current account with the Central Bank (Note 16)	242,786	495,678
Receivables from banks with original maturity up to 3 months (Note 17)	242,257	283,078
	<b><u>485,892</u></b>	<b><u>779,357</u></b>

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**39. TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER JOINT CONTROL WITH THE STATE**

**Related parties**

The following table shows the companies with which the Group had transactions during the reporting period. All related party transactions were carried out at agreed prices.

<i>Entity/individual</i>	<i>Type of control</i>
Ministry of Economy	Ministry exercising ownership rights over the Bank on behalf of the State until March 18, 2022
Ministry of Innovation and Growth	Ministry exercising ownership rights over the Bank on behalf of the State after March 18, 2022
Ministry of Finance	Ministry, depositor, issuer of securities
Ministry of Agriculture	Ministry, depositor, issuer of securities
Avtomagistrali EAD	Company under joint control with the State
South Stream Bulgaria AD	Company under joint control with the State
Eko Antratsit EAD	Company under joint control with the State
Montazhi - Sofia EOOD	Company under joint control with the State
ICGB AD	Company under joint control with the State
Holding Bulgarian State Railways EAD	Company under joint control with the State
Saint Ekaterina University Multiprofile Hospital for Active Treatment	Company under joint control with the State
Bulgarian Institute for Standardization	Company under joint control with the State
Terem – Holding EAD	Company under joint control with the State
Bulgarian Energy Holding EAD	Company under joint control with the State
Energy Investment Company EAD	Company under joint control with the State
Kinteks EAD	Company under joint control with the State
Vodosnabdiavane i kanalizacia EOOD Plovdiv	Company under joint control with the State
TPP Maritsa East 2 EAD	Company under joint control with the State
State Consolidation Company EAD	Company under joint control with the State
Avionams AD	Company under joint control with the State
Vodosnabdiavane i kanalizacia Shumen OOD	Company under joint control with the State
Montazhi EAD	Company under joint control with the State
Bulgarian W&S Holding EAD	Company under joint control with the State
Bulgartransgas EAD	Company under joint control with the State
State enterprise KABIUK DP	Company under joint control with the State
Multiprofile Hospital for Active Treatment Lozenetz EAD	Company under joint control with the State
BDZ Freight Services EOOD	Company under joint control with the State
Sofia Tech Park AD	Company under joint control with the State
Irrigation systems EAD	Company under joint control with the State

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**39. TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER JOINT CONTROL WITH THE STATE (CONTINUED)**

Related party balances in the consolidated statement of financial position at the end of the reporting periods are as follows:

<b>Assets</b>		<b>Type of balance</b>	<b>2021</b>	<b>2020</b>
<i>Entity/individual</i>				
Ministry of Finance	Financial assets at fair value through other comprehensive income	453,833	471,139	
Ministry of Finance	Financial assets at amortized cost – Debt securities	10,060	10,126	
Companies under joint control with the State	Loans and advances to customers	317,252	300,992	
Companies under joint control with the State	Financial assets at fair value through other comprehensive income	23,113	22,649	
		<b>804,258</b>	<b>804,906</b>	

<b>Liabilities</b>		<b>Type of balance</b>	<b>2021</b>	<b>2020</b>
<i>Entity/individual</i>				
Ministry of Finance	Other borrowings	16,746	16,932	
Ministry of Agriculture	Other borrowings	65,496	68,077	
Companies under joint control with the State	Liabilities to customers on deposits and other borrowings	273,750	360,509	
		<b>355,992</b>	<b>445,518</b>	

**Related party transactions:**

		<b>Type of relation</b>	<b>2021</b>	<b>2020</b>
<i>Entity/individual</i>				
Ministry of Finance	Fee and commission income	57	58	
Ministry of Finance	Interest income	2,767	1,906	
Ministry of Finance	Interest expenses	(113)	(117)	
		<b>2,711</b>	<b>1,847</b>	
Companies under joint control with the State	Interest income	8,512	5,067	
Companies under joint control with the State	Fee and commission income	202	232	
Companies under joint control with the State	Interest expenses	(12)	(86)	
Companies under joint control with the State	Other operating expense	-	(21)	
Companies under joint control with the State	Other operating income	-	37	
		<b>8,702</b>	<b>5,229</b>	

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**39. TRANSACTIONS WITH RELATED PARTIES AND COMPANIES UNDER JOINT CONTROL WITH THE STATE (CONTINUED)**

Contingent liabilities and commitments with related parties:

<i>Entity/individual</i>	<i>Type</i>	<b>2021</b>	<b>2020</b>
Companies under joint control with the State	Unutilised credit amounts	23,038	40,649
Companies under joint control with the State	Bank guarantees issued	2,933	6,528
		<b>25,971</b>	<b>47,177</b>

Relations with key management personnel:

<b>Balances with key management personnel</b>	<b>2021</b>	<b>2020</b>
Payables to customers on deposits	289	378
Remuneration payable	23	71
Loans and advances to customers	-	145
Other liabilities	-	32
<b>Transactions with key management personnel</b>	<b>2021</b>	<b>2020</b>
Remuneration and social security contributions	(3,076)	(3,144)
Interest income	-	4

**40. EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS**

No adjusting events or significant non-adjusting events have occurred after the reporting date until the date of approval of the consolidated financial statements except for the following non-adjusting events:

**Change of the principal of Bulgarian Development Bank EAD**

With a change in the Bulgarian Development Bank Act, effective as of 18 March 2022, the rights of the state as a sole owner of the capital of the Bank are exercised by the Minister of Innovation and Growth.

**Change in the Supervisory Board of Bulgarian Development Bank EAD**

The decision of the sole owner of the capital of BDB by which Velina Ilieva Burska and Mitko Emilov Simeonov are dismissed as members of the Supervisory Board of the Bank is entered in the Commercial Register on 13 January 2022.

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**40. EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Changes in the Management Board of Bulgarian Development Bank EAD**

As of the beginning of 2022 until 23 June 2022 the following changes have been made in the membership of the Management Board of Bulgarian Development Bank EAD:

By decision of the Supervisory Board of Bulgarian Development Bank EAD of 6 June 2022 Mrs. Mariana Dimitrova Petkova was elected as a member of the Management Board of Bulgarian Development Bank EAD and the decision was entered in the Commercial Register on 13 June 2022. Mrs. Mariana Petkova is elected as Chairman of the Management Board and Executive Director of the Bank.

By decision of the Supervisory Board of Bulgarian Development Bank EAD of 9 June 2022 Mr. Vladimir Rashkov Gueorguiev was released as a member of the Management Board and Executive Director of Bulgarian Development Bank EAD. The decision was entered in the Commercial Register on 16 June 2022.

By decision of the Supervisory Board of Bulgarian Development Bank EAD of 9 June 2022 Mr. Jivko Ivanov Todorov was released as a member of the Management Board and Executive Director of Bulgarian Development Bank EAD effective as of 13 June 2022. The decision was entered in the Commercial Register on 23 June 2022.

**Change in the Board of Directors of National Guarantee Fund EAD**

As of the beginning of 2022 until 23 June 2022 the following changes have been made in the membership of the Board of Directors of National Guarantee Fund EAD:

By Decision of the Management Board of Bulgarian Development Bank EAD Mr. Jivko Ivanov Todorov was released as a member of the Board of Directors of National Guarantee Fund EAD and the decision was entered in the Trade Register on 23.06.2022.

**Change in the Board of Directors of BDB Microfinancing EAD**

As of the beginning of 2022 until 23 June 2022 the following changes have been made in the membership of the Board of Directors of BDB Microfinancing EAD:

By Decision of the Management Board of Bulgarian Development Bank EAD Mr. Vladimir Rashkov Gueorguiev was released as a member of the Board of Directors of BDB Microfinancing EAD and Mrs. Mariana Dimitrova Petkova was elected as a member of the Board of Directors and the decision was recorded in the Commercial Register on 23.06.2022.

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**40. EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS (CONTINUED)**

**The war in Ukraine**

In the early hours of 24 February 2022, a full-scale military invasion of Russia began in its southwestern neighbour Ukraine. The attack on Ukraine has been described as the most serious military conflict in Europe since the end of World War II. Russia has been subject to large-scale economic sanctions from the European Union, the United States, Britain, Canada and other countries, including traditionally neutral ones such as Switzerland, some of which extend to Belarus.

The economic situation caused by the conflict and the sanctions imposed is expected to affect a number of sectors of the economy, including disrupting the normal economic activity of economic operators. Due to the unpredictable dynamics of the conflict and its medium- and long-term economic consequences, the scope and impact on the Bank's business are difficult to assess.

Depending on the duration and scale of the conflict, and the political and economic measures taken by Russia and the United States and the EU, the Bank may reconsider its assumptions and judgments, which in turn will lead to significant adjustments in the carrying amount of assets and liabilities for the next financial year.

**Potential immediate effects on the Bank**

As of 31.12.2021 and the date of issuance of the consolidated financial statements, the Bank has the following deposits in/receivables from institutions, whose main shareholder is Russia:

	<b>Amount as of 31.12.2021</b>	<b>Rating as of 31.12.2021</b>	<b>Amount as of the date of issuance of the financial statements</b>	<b>Rating as of the date of issuance of the financial statements</b>
International Bank for Economic Cooperation (IBEC)	10,029	Baa3 (Moody's)/ BBB (Fitch)	-	WDR/WDR
International Investment Bank (IIB)	74,308	A3 (Moody's)/ A-(Fitch)	-	WDR (Moody's)/ BB-(Fitch)

As of the date of issuance of these financial statements the Group has no receivables from IBEC and IIB.

**Potential effects on the Group's customers**

The business of some important customers of the Bank is also expected to be affected by disrupted supply chains, travel restrictions, increased prices and more. As of the date of issuance of the consolidated financial statements, customers still do not have a detailed quantitative assessment of the potential effects of the war, however:

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## **40. EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS (CONTINUED)**

### ***Potential effects on the Group's customers (continued)***

- Customers operating in the **tourism and hospitality sector** expect a decrease in visits from Russia and Ukraine, and are not confident that they will be able to fully compensate for these visits with tourists from other markets
- Customers operating in the **transport sector** expect a significant increase in energy costs as a result of the war in Ukraine. These customers are also unsure of the extent to which they will be able to pass on additional costs to their own customers without causing an outflow of consumption, with a corresponding negative effect on operating results and financial position.
- Customers in the **construction and real estate sector** expect high prices of materials to remain in the medium term, as suppliers of these raw materials - iron, cement and others - are Russia and Ukraine. Customers are not sure how much they will be able to pass on additional costs to their own customers;
- Customers in the **trade and services sector** expect increase in costs due to rising energy prices, as well as general inflation pressure as a result of the war, but do not expect a significant effect on their operating results and financial position: these customers expect that to a high degree, will be able to offset the effect of the increases;
- Customers in **the industry sector** are directly affected by increased energy and material prices, as well as disrupted supply chains.
- The Bank's customers in the sector "**Production, transmission, distribution and delivery of natural gas and heat**" are directly affected by increased energy prices, expecting regulatory compensational measures, given their special status of natural monopolies in respective markets. In addition, the disruption of natural gas supplies from Russia, effective as of 27 April 2022, could not be compensated fully in the short term, and will possibly lead to:
  - o Decrease of income from transmission of natural gas for the period, in which normal deliveries are offset by other sources;
  - o Increase in the short-term of costs of delivery of natural gas for heat production.

Negative effects are likely both on the operational results and financial condition of these customers for 2022, and on the economy as a whole. At the same time, it is unlikely that as a result of these developments, customers will be permanently unable to repay their obligations to the Group.

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**40. EVENTS AFTER THE DATE OF THE FINANCIAL STATEMENTS (CONTINUED)**

***Potential effects on the Group's customers (continued)***

The Group carefully monitors the development with its customers and is ready to take appropriate measures to protect its interests, and those of its customers.

The effect of the general economic implications may lead to the need to revise certain assumptions and accounting estimates. At this stage, the Group's management is not able to reliably assess these effects, as events develop on a daily basis.

Longer-term effects may affect the Group's financial position, results of operations and cash flows. However, at the date of issue of these consolidated financial statements, the Group companies continue to meet their obligations on time and therefore continue to apply the going concern principle.